AARP FOUNDATION TAX-AIDE

COUNSELOR REFERENCE MANUAL

(CRM)

For TaxWise Desktop and Online

TAX YEAR 2012

Prepared by the AARP Foundation Tax-Aide CA Training Committee
The CRM can be ordered from the Franchise Tax Board
The CRM can also be found at http://www.ftb.ca.gov/individuals/vita/index.shtml
And at Tax-Aide for CA-2 http://aarpca2.org/forum

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ESSENTIAL INFORMATION

Where to Mail Returns and Payments

What	IRS	CA FTB
Electronic filing and balance due (mail payment & voucher ONLY)	IRS (form 1040V) P.O. Box 7704 San Francisco 94120-7704	FTB (form 3582) P.O. Box 942867 Sacramento 94267-0008
Paper filing (including amended) and balance due (mail signed return)	**1040:** IRS, P.O. Box 7704 Fresno CA 94120-7704 **1040X:** IRS, Fresno, CA 93888-0422	FTB P.O. Box 942867 Sacramento 94267-0001
Paper filing (including amended) and nothing due OR refund (mail signed return)	**1040:** IRS, Fresno 93888-0002 **1040X:** IRS, Fresno 93888-0422	FTB P.O. Box 942840 Sacramento 94240-0002
Estimated payments (mail payment and voucher)	IRS (form 1040ES) P.O. Box 510000 San Francisco 94151-5100	FTB (form 540ES) P.O. Box 942867 Sacramento 94267-0031
Automatic six month extension no payment (mail just form)	IRS (form 4868) Fresno 93888-0002	Nothing to file
Automatic six month extension- with payment (mail form with check)	IRS (form 4868) P.O. Box 7122 San Francisco 94120-7122	FTB (form 3519) P.O. Box 942867 Sacramento 94267-0051

IRS & FTB Toll Free Numbers

****Do not share Volunteer Hotline numbers with taxpayers****

IRS NUMBERS M-F 6am to 5:30pm, Sat 6am to 2pm, PST		**FTB NUMBERS** M-F 8am to 4:30pm PST	
Volunteer Hotline	**800-829-8482**	**Volunteer Hotline**	**800-522-5665**
Tax Information	800-829-1040	Volunteer Coordinator	916-845-4521
Automated Refund Info	800-829-1954	General Number	800-852-5711
Tax Forms & Publications	800-829-3676	Automated Service	800-338-0505
ID Protection Specialized Unit	800-908-4490	ID Theft Resolution Coordinator*	916-845-3669

* ***CA Note:*** Paper file for California. The FTB will contact the taxpayer regarding discrepancies. The CA ID Theft Resolution Coordinator should be contacted only after a federal ID theft case has been set up.

TaxWise (CCH) 1-800-411-6391 M-F 4:30am to 9:00 pm PST, Sat 5:30 to 3:00, Sun 10:00am-1:00pm
TaxWise has a Knowledgebase that can be consulted for commonly asked questions

Reporting Lost Or Stolen Equipment

In the event that the laptop computer in your custody is lost or stolen, you must report the loss/theft to your local coordinator AND AARP National Office, 800-424-2277, ext. 6021 or 6027

AARP Volunteer Information

- AARP Foundation Tax-Aide counselors should NOT act on information contained in "IRS Quality Alerts." Tax-Aide will redistribute it as a CyberTax message if relevant. To subscribe to CyberTax, send an email to taxaide@aarp.org with "Subscribe" in the subject line; include your first and last name, service state ("CA__"), ZIP code of residence, position title (counselor, instructor, etc.), and email address in the message text.
- Volunteering with AARP Foundation Tax-Aide - direct them to www.aarp.org/taxaide, 888-687-2277, or put them in contact with your district or local coordinator
- AARP programs - Reverse Mortgages, Senior Community Service, Money Management, etc. direct to www.aarp.org or 202-434-2044
- Donations: (Tax-Aide counselors cannot accept money). The taxpayer can send a donation to AARP Foundation/Tax-Aide Program, 601 E Street, NW, B4-640, Washington DC 20049 – put "Tax-Aide – CA__" on the memo line of the check!

WHAT TAX-AIDE CAN AND CANNOT DO

The AARP Foundation Tax-Aide Program is limited in scope. Our Mission is to provide high-quality free income tax assistance and tax form preparation to low and moderate-income taxpayers, with special attention to those age 60 and older. All references to "Tax-Aide" are specifically to AARP Foundation Tax-Aide.

- Returns that include forms or schedules not listed below will not be prepared by Tax-Aide volunteers
- Regardless of training and/or certification, if a counselor is not confident in their knowledge of forms and issues relating to a client's return, the return will not be prepared by that counselor
- When volunteers are not certain that a completely accurate return can be prepared, clients will be "referred" to either another counselor or site or a paid tax preparer
- California Resident tax returns can be prepared along with the federal tax return
- Part-year or non-resident California returns will not be prepared
- California returns that require income-splitting will **not** be prepared, e.g. MFS, RDP, SSMC (Same Sex Married Couples), or innocent spouse claims

Tax documents that may be brought in by Clients

W-2.....Wages, including statutory employees
W-2G.....Gambling winnings
1098.....Mortgage interest
1098-E.....Student Loan interest
1098-MA.....Mortgage Assistance Payments
1098-T.....Tuition expense and Scholarships
1099-A .....Abandonment of Secured Property (COD certified only)
1099-B.....Stock and Bond Sales
1099-C.....Cancellation of Debt (COD certified only)
1099-DIV .....Dividends and Capital Gains Distributions
1099-G .....State Tax refund; Unemployment and Family Leave
1099-SA .....Distribution from HSA, MSA (HSA certified only)
1099-INT.....Interest Income, early withdrawal penalty and foreign tax paid
1099-K .....Payment Card and Third Party Network Transactions
1099-MISC .....Miscellaneous Income (boxes 1, 2, 3, 4, 7 and 16 only)
1099-OID .....Original Issue Discount Income (if fully taxable)
1099-PATR.....Distribution from Cooperatives (Rainbow Grocery only)
1099-Q .....Distributions from Education Plans (529 Plans only, not Coverdell)
1099-R.....Pension, annuity or IRA distributions (including RRB-1099-R and CSA 1099-R)
1099-S.....Sale of Home (only if client has basis documentation)
SSA-1099.....Social Security
RRB-1099 .....Railroad Retirement –Social Security Equivalent benefit- Tier 1
2120.....Multiple Support Agreement (evidence only, do not file)
5498.....IRA Contribution Information (data for IRA wkt)
8332.....Release of Claim to Exemption for Child by Custodial Parent – attach to 8453
K-1 (1041).....Estates and Trusts (with Interest, Dividends and Capital Gains only) or Funeral and Cremation Services
K-1 (1065, 1120)..Partnerships and S Corporations (pass through royalty, interest, dividends & cap gains only)
POA's .....Power of Attorney (2848 or other) – Attach to 8453
Alimony .....Income or Payments
Brokerage statements incorporating any of the forms above
Canada Pension Plan (CPP), Quebec Pension Plan (QPP), Old Age Security (OAS)
Germany Social Security
Other foreign pension income/social security (out-of-scope)
IRA contributions, Traditional and Roth (except Simple and SEP)

Federal Tax Forms and Schedules we **can** prepare (with associated worksheets)

- 1040 Federal Individual Income Tax Return
  - Sch A .....Itemized Deductions
  - Sch B .....Interest and Dividend Income
  - Sch C .....Business Income (C-EZ rules but up to $10,000 expenses) (multiple Sch C's allowed)
  - Sch D .....Capital Gains and Losses (includes non-business bad debts)
  - Sch E.....LIMITED-Oil lease and Royalty income reported on 1099-Misc with no expenses
  - Sch EIC.....Earned Income Credit
  - Sch R .....Credit for the Elderly or the Disabled
  - Sch SE .....Self Employment Tax
- 982.....Reduction of Tax Due to Discharge of Indebtedness (only if >2 certified in COD at site)
- 1040-ES.....Estimated tax calculation and payment vouchers for next year
- 1040-V .....Payment Voucher for Balance Due on Return
- 1040-X .....Amended Return
- 1116.....Foreign Tax Credit (Simplified Limitation Election only)
- 1310.....Statement of Person Claiming Refund due a Deceased Taxpayer
- 2210.....Underpayment of Estimated Tax (only to eliminate penalty)
- 2441.....Child and Dependent Care Expenses
- 4137.....Social Security and Medicare Tax on Unreported Tip Income
- 4868.....Extension of time to file (only if client does not have necessary papers)
- 4852.....Substitute W-2 or 1099-R
- 5329 Part 1 .....Additional Tax on Early Distributions, Exceptions to penalty
- 5405.....First-Time Homebuyers Credit Repayment
- 5695.....Residential Energy Efficient Property Credit (Part 1 only) [Expired]
- 8283.....Non-cash Contributions over $500 (Section A only-$5,000 max)
- 8453.....Transmittal Form for E-Filed Returns (8332, POA, 8949, 1098C)
- 8812.....Additional Child Tax Credit
- 8862.....Information to Claim EIC after Disallowance
- 8863.....Education Credits
- 8879.....E-file Signature Authorization
- 8880.....Retirement Savings Credit
- 8888.....Direct Deposit to Multiple Accounts
- 8889.....Health Savings Accounts (only if >2 certified in COD at site)
- 8917.....Tuition and Fees adjustment [Expired]
- 8949.....Sales and Other Dispositions of Capital Assets (not all adjustment codes)
- 9452.....Filing Assistance Program (Do You Have To File?)
- 9465.....Installment Agreement Request
- ACH 1040 .....Direct Debit for Balance Due/Estimated Tax
- W-4.....Employee Withholding Worksheet/Certificate
- W-4P .....Pension Withholding Request (not available in TaxWise)
- W-7.....Application for ITIN (provide form only, unless you have been trained)

State of California forms and Schedules we **can** prepare (with associated worksheets)

- 540 .....California Resident Income Tax Return
  - Sch A .....CA Itemized Deductions
  - Sch C .....CA Business profit or loss
  - Sch CA .....Adjustments to Income
  - Sch D .....CA Capital Gain or Loss adjustment
- 540-ES.....Estimated Income Tax Payments
- 540-V .....Payment Voucher (for paper returns)
- 540-X .....Amended California Income Tax return
- Sch W-2CG .....Wage and Withholding Summary (not needed for e-filed returns)
- Rent worksheet.....Non-Refundable Renters Credit
- 3506.....Non-Refundable Child Care Credit
- 3519.....Extension Payment Voucher (only if payment is due)

3567.....Installment Agreement Request
3582.....Payment Voucher (for E-filed returns)
3805P .....Additional Taxes on Early Distributions (Part I only)
4803e.....Head of Household Schedule
5805.....Underpayment of Estimated Tax (only to eliminate penalty)
CA 8879 .....E-file Signature Authorization

What is out-of scope? – **Everything Else**
While it would be exhaustive to list all of the things that are out of scope, the following are **some of the out of scope items**:

Any return that is not an individual return.
Non-Resident returns (1040 NR)
Married filing separately (exception-see Married Filing Separately below)
Registered Domestic Partnerships (RDP)-Same Sex Married Couples (SSMC) returns
State returns for part year residents or nonresidents (540 NR)
State returns for a state other than California
When we cannot do the state return, we should refer the client to a Tax Professional for BOTH the federal and state returns
Rental Income, except rents reported on 1099-Misc or K-1 without expenses
Depreciation (if there is depreciable property, we **cannot** choose to file without depreciation)
Building, room, furniture or appliances used to produce Income
Office in home for employer or taxpayers business Form 8829
Computer or equipment used for employer or taxpayer's business
Vehicle expenses (except for standard mileage allowances)
Farm Income
Fishing Income
Business income with expenses over $10,000, depreciable assets or capital expenditures eligible for immediate write-off (including computer), employees, or payments requiring 1099 to be filed
Income from Partnerships, Trusts (with income other than pass through in-scope items)
IRA or Pension Distributions and Contributions requiring a form 8606
Taxpayers with hired Household Employees requiring Schedule H
Bankruptcy
Employee Business Expenses
Canadian Registered Retirement Plans
Foreign Earned Income
Foreign Pensions and Social Security (except for Canadian or German Social Security)
Mortgage Interest Credit Form 8396
Moving Expense
Casualty and Theft Losses
Sale of Business Assets
Investment Interest Expense
Alternative Motor Vehicle Credit
Calculation of Bond OID (original issue discount) or BPA (bond premium amortization)
Calculation of Basis or Single Category or Double Category method for mutual fund sales
Lump Sum Distribution using 10 year averaging
AMT (Alternative Minimum Tax) Form 6251 unless no AMT appears on return
Investment Income of Children - Form 8615
Childs Interest/Dividends reported on parent's return - Form 8814
Qualified Adoption Expenses - Form 8839
Installment Sale Income - Form 6252
Non-Cash charitable contributions over $5,000 or donations of vehicles or requiring appraisal
Uncollected social Security Tax Form 8919

TAXWISE DESKTOP PROCEDURES - TWD

For TaxWise Online (TWO) - see Taxwise Online Procedures - TWO below

START OF SHIFT

- Check with the LC or ERO regarding the network status – All network cables must be attached, the Access Point computer (the laptop to which the printer is attached) and the router/hub should be operational before any workstation is turned on – only then turn on your computer
- Log on to encryption software and Windows. Remember that passwords are case sensitive. The logon sequence may vary depending on the encryption software being used – your LC or ERO will provide detailed information for each laptop
- Traveler Drive users: Insert Traveler Drive and logon to Truecrypt
- Log into TaxWise, selecting the correct user name for your site and enter the TaxWise password
- Turn on "caps lock" and maximize the screen (the box at upper right)
- Clear any returns left from previous session after checking with ERO

SHUTDOWN PROCEDURES

- Backup all returns, including paper files and those waiting for more information
- Validate that the backup was successful by using Restore. If you are using a flash drive, you MUST first click on the hardware icon at the bottom right of the screen and then select "Safely remove USB mass storage device", after a few moments you should see the message "Safe to remove hardware" and only then should the flash drive be removed

Delete all returns. Follow the proper procedures for shutting down the laptops! Do not just pull the power and close the lid! Doing so runs the battery down to zero and adds extra boot-up time for the next user.

- Close TaxWise by clicking on the Exit TaxWise option on the main screen
- Close any help screens
- Click "Start"
  - Windows 7: Click "Shut Down"
  - Windows XP:
    - Click "Shut Down"
    - Select "Shut Down" in the "Shut Down Windows" window
    - Click "OK"
- Wait until screen turns completely black before pulling power plug and closing lid
- When power plug is pulled, ALL lights on keyboard should go out. If they don't, you have not shut down properly
- Replace laptop, power cord, mouse and mouse pad in laptop case; be sure the number on the computer's bar code matches the number on the case
- Shut down printer and return to box, along with extra printer paper and instruction manual

KEYBOARD SCREENS, ETC.

- The Title Bar indicates the TaxWise year, Tax package - 1040 Individual, TaxWise User name, and the Taxpayer SSN if a return is open
- TaxWise has a number of ways to perform a function; you need to decide which is most convenient for you (e.g. using the mouse versus a pull down menu versus a navigation key versus an icon)
- Tax-Aide uses TaxWise as a "forms based" package (an "interview mode" is available). You first complete the MAIN INFO form based on the Intake/Interview Sheet, last year's return and/or "proforma"; then complete each of the forms based on the information that the taxpayer(s) provides you by selecting the form from the "forms tree" or "add form" – the necessary information about the taxpayer(s) and any dependents flows to the individual forms from the MAIN INFO form.
- Enter all dates in the format mmddyyyy (note, four digit years) - TaxWise will insert the slashes. A two-digit year will be accepted in most cases, but must be checked to make sure it is the correct century

- Amounts can be entered with or without cents - TaxWise will round to the nearest dollar. If rounding is difficult, it is better to enter the cents value and let TaxWise do the rounding
- The general rule is to NOT use any punctuation, double spaces or dashes; however there are some exceptions. For bank account numbers enter dashes only if shown on the check but not spaces or symbols.
- When a "pick list" of values is available for a field, highlight the field and either click the drop down arrow or tap the space bar to display the list and then double-click on the desired value. Check that result is as desired
- Right clicking on the mouse will bring up a menu that allows you to Link, Insert/Delete rows, Sort lists
- Cursor can be located by a Light Blue background for the field or by arrows on each side of the TaxWise work area
- Understanding the colors of the fields in TaxWise is important:
  Yellow - Calculated Entries or linked to another form
  Green – Non-Calculated Entries
  Red on Gray - Overridden Entries
  White/black on Red – Pro-forma Entries, or zero
  Red Field – Required Entry or Validation
- The following is also found by selecting Help>Keyboard Shortcuts:

Function Keys

F1 – Display help	**Shift+F1** – IRS Instructions
	Alt+F1 – Context sensitive help
F2 – Save return	
F3 – Toggle Red (estimate)	
F5 – Calculator	
F6 – View 2nd form	
F7 – Return status	
F8 – Override entry (**do not use**)	**Shift+F8** – Un-override entry
F9 – Link form	**Shift+F9** – Remove form
F10 – Close form, Close return	**Shift+F10** – Add new copy
	Ctrl+F10 – Add new form
F11 – Insert variable (client letter)	**Shift+F11** – Pause timer
Alt+Insert – Insert a line	**Alt+Delete** – Delete a line
Alt+F9 – Sort ascending	**Alt+F10** – Sort descending
Space Bar – Open pick list	

Moving Around on Forms

To go here	**Press this key**
Next required (red) entry	**Ctrl+E**
Next entry	Enter, Tab or Rt Arrow
Previous entry	**Shift+Enter**, **Shift+Tab**, or Left Arrow
First entry on page	**Ctrl+Home**
Last entry on page	**Ctrl+End**
First character in entry	Home
Last character in entry	End
Next section of page	Page Down*
Previous section of page	Page Up*
Next form in tree	**Ctrl+PageDown**
Previous form in tree	**Ctrl+PageUp**

Shortcut keys are combination keystrokes. Hold down the Ctrl key while you press the letter key.

File Menu
Ctrl+I – Apply for an ITIN
Ctrl+N – Start a New Return
Ctrl+O – Open Return List
Ctrl+Y – Open Return by SSN/EIN
Ctrl+U – Change User
Ctrl+Q – Search/Query for Taxpayer
Ctrl+P – Print This Return(s)

Edit Menu
Ctrl+Z – Undo **Ctrl+Y** - Redo
Ctrl+X – Cut
Ctrl+C – Copy
Ctrl+V – Paste
Ctrl+Delete – Delete
Ctrl+F – Find
Ctrl+E – Go to Next Required Entry

View Menu
Ctrl+W – TaxWise Web
Ctrl+T – Open/Close Tree

Tools Menu
Ctrl+D – Run Diagnostics
Ctrl+M – Make IRS e-files
Ctrl+B – Backup to Disk
Ctrl+R – Restore from Disk
Ctrl+Tab- Switch from Tree to Worksheet

* If cursor is at bottom or top of page, Page Up/Down opens the previous/next form/page in the tree

MENU BAR – PULL-DOWN MENUS

(At top of screen)

- File – opens returns, and for prints. Accesses "What if?" mode (see What If? instructions at the end of this section). Apply for ITIN returns
- Edit – various standard Windows formats

- Form – used to open, copy or close a form, generally easier to use the tabs above the current form in the workspace
- View – use to adjust screen display
  - Go to Web-not used by most sites
  - Edit Tax Form size-sets the size of the form in the workspace.
  - Use large Icons- adjusts toolbar icon size
  - Show forms tree-hides or shows form tree
  - Show refund monitor- hides or shows refund monitor
  - Context sensitive help- hides or shows the help screen below the current form in the workspace; the information refers to the current form and/or field on which the cursor is positioned
- Bank – not used by Tax-Aide
- Reports – generally used only by EROs to track returns
- Communications – used only by EROs to transmit returns
- Tools – used for the following tasks:
  - Run Diagnostics (icon on tool bar easier) or **Ctrl+D**
  - Check Return Status (good summary information) or **F7**
  - Calculator or **F5**
  - Utilities / Setup Options
    - File>Return Explorer
      - Used to copy, move, or delete TaxWise files
      - Click on the plus before Users, and select your user name
      - Select the returns you wish to move or delete. Select the first return, press shift and select the last return to select all; otherwise hold down control to select individual returns
      - Confirm that files are backed up before deleting
      - Change Action to "Delete" "Move" and click the button
    - File>Erase E-files. Use **Erase e-files** to erase tax return e-files that were created prematurely or by mistake. This erases the e-file only, not the return
    - The remaining File items Delete Pending E-files, Reset DCN and Copy Performa files will be used only by the LC or ERO
    - The Tools menu will be used by the LC/ERO only
    - The Setup menu will be used by the LC/ERO only except for
      - Setup>View Authorization to show TaxWise module version
  - Edit Tax Form Defaults is restricted to the LC/ERO
  - Backup to Disk is used to backup TaxWise files at end of day
    - Insert Flash Drive and cancel or close any window that appears.
    - Select "Start a new backup"
    - Highlight the User name that you used in creating the returns and OK
    - On the next screen, check wide format at the bottom to see SSN's, Names, Type of file, Status and date edited.
      - Check that any Paper file has a Type shown as Paper, and that all E-files ready to send are shown as e-file created
      - Any return without an e-file created must be notated on the ERO log and possibly elsewhere per local instructions
      - If the list agrees with the ERO entries Select All (even the Paper files) and click OK
      - If the entries do not agree with the ERO log, Cancel and fix the errors by creating e-files, erasing e-files or correcting the ERO log.
    - Select the Drive Usually E: for the flash drive and then select the directory where you have been instructed to back up your returns - press OK
    - You will then get a message "An earlier Backup exists on this diskette. This will be overwritten. Continue?" Select Yes
    - You will then get a message that the "Backup complete"
  - Restore from Disk is used primarily to check that the backup was done correctly

        - Select the Directory where you backed up your returns.
        - Select your User name
        - A screen with all your backed up returns will come up. Select Wide Format to see the SSN's
        - Check the names against your control list and compare the number of returns to the number you backed up
        - If they agree, Cancel the restoration process. You will get a message "Restore Canceled" If not determine what files are missing from the backup and restart the backup process
    - Carry forward prior year data is used when doing multiple years returns. Start with the oldest and carry forward the return to each successive year as follows.
        - Select tools>Carry Forward>Prior Year Data
        - Makes sure the Directory for prior year is correct and OK
        - Select the User Name for the prior year file and OK
        - Select the Social Security number of the return you wish to carry Forward and OK
        - You will get a message "Process complete"
        - Now Start a new return and the Carryforward data will be available for the return
- Help
    - Explains menus and toolbars
    - Keyboard shortcuts shows Function keys and Navigation
    - About shows TaxWise program version-see Utilities view authorization for Module version

TOOLBARS

- Prev Form – move to the prior form in the forms tree (down the tree)
- Next Form – move to the next form in the forms tree (up the tree)
- New Return – start a new return
- Open Return – open a return from the list of existing returns for the user
- Close Return – closes the current return
- Forms Tree – toggle to display the forms tree (and refund monitor)
- Print Return – to print the return
- Print Form – to print only the current form
- Link Depr (depreciation) Wkt – not used by Tax-Aide
- Return Stage- Mark return status for ERO, mark return as Ready to file and mark as Paper if return stage is setup
- Interview – switch to Interview Mode
- Diagnostics – to run diagnostics for the current return
- IRS Pub 17
- User Guide – TaxWise User Guide

TABS

When a return is not open, the tabs at the top are visible. Most need an internet connection, however the last Tab is labeled Reference and provides access to reference material your TC has selected. See Reference Material below.

SCREEN LAYOUT

Left Side

- Refund Monitor – if activated, indicates Federal AGI and Federal/State refunds/amounts owed on current return. Turn on/off from View
- Forms Tree:
    - Identifies SSN of the current return
    - Highlights the form currently in the Work Area on the right side of the screen
    - Provides listing of forms that have been pre-loaded
    - Identifies status of forms listed:
        - **!** Red exclamation mark - Form is incomplete

- ✓Blue check mark - Form is complete; ✓Dark blue check mark, if active form
- Blank page - Form available, but not necessarily required.
- + / - opens or closes multiple page lists

Use caution as not all forms will be visible, use the scroll bar to move down/up the tree

Right Side – TaxWise Work Space

- Tabs at top of the area support
  - Add form/display form list (Ctrl+F10) – to select a form from the list if it is not on the forms tree
  - Copy this form (Shift+F10) – creates a copy of the current form when the taxpayer has multiple copies of a form (e.g. W-2s from several employers)
  - Remove form (Ctrl+F9) – removes the form from the return
  - Close this form (F10) – closes the current form
- Displays the current form (which is also highlighted in the forms tree)
- Context sensitive help for the form and/or field appears at the bottom, if it is activated from the View menu pull down, it has a scroll bar

ADDITIONAL FORMS

All normally required forms have been preloaded on the Forms Tree. Look there first if a form is needed. Additional Forms may be accessed in any of three ways:

1. From a field on any Form
   a. right click (F9 selects pre-linked only) or
   b. click on link icon to the right of the field to link to an existing or new form
2. By clicking on the Add Form/Display Form List tab above the current form
3. By pressing **F10** upon completion of the currently displayed form. F10 twice if form was opened by following a link

On the "Find a Form" Page:

- Not all forms can be seen on the screen at one time, use the scroll bar to access additional forms.
- California forms are listed at the bottom and all start with "CA"
- The Forms can be sorted by clicking on the appropriate heading. A black triangle on the sort column header identifies the active sort column. The shortcut column is NOT sorted in numerical order
- Flag symbol: Changes "Look For" window at top right of screen to "Sorted on Status" Sorts forms by "flag"
  - ✓ complete (check mark)
  - available in Form Tree (page symbol)
  - **!** incomplete (exclamation mark)
  - not opened yet (blank)
- Type –groups form by type, federal first, then statements, worksheets, and State forms
- Description – changes sequence of forms list to sort by description

To Open Forms

- This screen lists all the tax forms that might be used in a basic return
- List of "PRIVATE FORMS" can be created by selecting this option and creating a list
- Best place to work is with the "Shortcut" column as the active column
- To open a form, highlight the form and press ENTER, double –click, or type shortcut name of form in the "Look for" field (see organizing Your Work on next page). California form numbers must be preceded by CA
- Forms should be loaded one at a time as they are needed
- As forms are loaded, they are also added to the TaxWise Form Tree at the left side of the screen

HELP

TaxWise has several context-sensitive **Help** features:

- The Context Help frame below the work area, which is activated from the View menu or pressing Alt+F1
- Pressing F1 for information about a specific field, which provides information prepared by TaxWise
- Pressing Shift+F1 to obtain IRS or FTB information about a specific field (depending on the active form)
- Pub 17 is available on the Toolbar

- TaxWise User Guide is available on Toolbar

CONFUSING SITUATIONS IN TAXWISE DESKTOP

Linking from a yellow field with a default form

Some fields may be linked to another form by default (e.g. Sch C Line 1 is linked to 1099-MISC by default). If you need to link to a scratch pad, you must link using either the right mouse button or F9 as the link icon will only take you to the default form.

Field is yellow resulting from linking in error

Follow the link to the forms and delete it by clicking the Remove Form tab or with "Shift-F9". Close the return, and reopen

Check to make changes box is Red

Some fields (e.g. Form 540 "Check here to change address") may be Red by default (defaults may be setup differently by TC). In situations where you do not want to make a change, click the field and enter or tab, and then click it again to clear the entry and the Red

Data is entered and other data appears

Some fields have history lists (e.g. MAIN INFO form Birth dates). If an entry is made incorrectly (it may even appear correct before you enter), the data changes to a value from the history list when you press enter. You must re-enter the data correctly

Taxable Income but nothing below line 43 on 1040 page 2

If the capital gain and qualified dividends taxed at zero percent rate are greater than the taxable income shown on line 43, all the following entries may be zero, and zero is not printed

Unintentional Override

If you make an entry in a field, and then link from the field, the field is automatically overridden by the original entry and the link entries will not show. Right click on the original field and Un-Override

Interest/Div worksheet

Before making an entry you must tab once to get to the first field or click in the first field

REFERENCE MATERIAL

Tabs

- When there is no return open, (or by selecting View>Go to Web) you can see tabs along the top. Your TC may have added a "Reference Tab" that when selected will provide on-screen reference material. While it is up to the individual TC to decide what to provide, the following reference material is usually included
  - This Counselor Reference Manual updated as of the start of the season
  - Filing Requirements
- Once open, the reference material can be left open and you can toggle back and forth from TaxWise to the Reference material with **Alt+Tab**

WHAT IF?

The "What If?" tool lets you test any number of hypothetical tax scenarios for a client. It allows you to save test scenarios for future reference or replace the data in the current return with the new information. It can be a useful planning and advisory tool for clients who anticipate significant changes next year or can accelerate or delay income or deductions. What If can be used to determine the best Education credit/deduction.

Using the "What If?" tool

- Start and complete the return
- Click the File menu and select the "What If ?" mode
- A copy of the original return is opened with an Olive Green background. You can add forms and make changes without affecting the original return. Do not create a 1040-X as the original return will be lost.
- Press F2 to save information in the scenario. You can create multiple scenarios
- You can switch between the original and the scenario by clicking on the file menu and selecting What If? Scenarios and choosing the version you wish to view. Or by pressing **Ctrl+Alt+0** for the original.

- When you close a scenario, Tax Wise will ask you to confirm whether you want to replace the original return with the scenario. **DO NOT PRESS YES** unless you actually want to replace the original return. The original return will be lost. Cancel and press F2 if you want to save the scenario and select NO on the confirm screen to exit

TAXWISE ONLINE PROCEDURES - TWO

(For TaxWise Desktop – TWD – See Taxwise Desktop Procedures - TWD above)

START OF SHIFT

- Check with the LC or ERO regarding the network status. If your site equipment is hard-wired,
  - All network cables must be attached
  - The print server computer (the laptop to which the printer is attached), if used, must be turned on and the printer turned on
  - The network printer (the printer connected to the router), if used, must be attached to the router and the router and printer turned on;
  - The wireless printer, if used, should be turned on
  - The router and/or network switch(es) should be turned on and operational before any workstation is turned on – only then turn on your computer
- If your site uses Wi-Fi, verify you can connect to the Internet
- Open Internet Explorer (IE) and go to URL, https://twonline.taxwise.com. Log in to TaxWise Online with your ClientID, Username, and Password as given to you by your site manager or ERO – your password is defined by you on your first login
- Maximize the screen (click the box at upper right) then press the F11 key to maximize the IE window by hiding toolbars (pressing **F11** again will toggle the toolbars back on)

SHUTDOWN PROCEDURES

- Logout of TWO by clicking the "Logout" button at the top right of the Internet Explorer window

Follow the proper procedures for shutting down the laptops! Do not just pull the power and close the lid! Doing so runs the battery down to zero and adds extra boot-up time for the next user.

- Click "Start"
  - Windows 7: Click "Shut Down"
  - Windows XP
    - Click "Shut Down"
    - Select "Shut Down" in the "Shut Down Windows" window
    - Click "OK"
- Wait until screen turns completely black before pulling power plug and closing lid
- When power plug is pulled, ALL lights on keyboard should go out. If they don't, you have not shut down properly
- Replace laptop, power cord, mouse and mouse pad in laptop case; be sure the number on the computer's bar code matches the number on the case
- Shut down printer(s) and return to box(es), along with extra printer paper and instruction manual
- Turn off/unplug router and/or switches and store them along with the cables

KEYBOARD SCREENS, ETC.

Privileges

Counselors may assume different roles in TWO based on the security settings established by the TWO Administrator. There are 7 roles: Admin, SuperUser, ReturnPreparer, Template Manager, Interviewer, Reviewer, and E-file Manager. The majority of counselors will be assigned the ReturnPreparer role. The roles and Toolbar choices available for counselor roles are outlined in the following table (only the most common roles for counselors are listed – for other roles, refer to the TWO User Manual):

Tasks that can be done via Tool Bar Icons	Return Preparer	Super User	Reviewer
Start a New Return	Yes	Yes	Yes
Open Return	Prepared by you	All	All
Submit e-files	No	Yes	Yes
View Acks	No	Yes	Yes
Create Client Letters *	No	No	No
Create Return Templates *	No	No	No
Return Query	Prepared by you	All	All
TWO Reports	No	Yes	No
Reports Server	No	Yes	No
Change Program Settings **	Subset	Subset	Subset
Manage Users *	No	No	No
Print Checks	N/A	N/A	N/A
TaxWise University	Yes	Yes	Yes
Live Chat (Tech Support)	Yes	Yes	Yes
Help	Yes	Yes	Yes
Blog	Yes	Yes	Yes
Hot Topics	Yes	Yes	Yes
Logout	Yes	Yes	Yes

* Only the Administrator or counselor with Administrator privileges can accomplish these functions
Only the Admin user can edit the Admin username properties

** Only the Administrator or counselor with Administrator privileges has full access to all Program Settings

Entering Data

- TaxWise has a number of ways to perform a function; you need to decide which is most convenient for you (e.g. using the mouse versus a navigation key versus an icon)
- Tax-Aide uses TaxWise as a "forms based" package (an "Interview mode is available). You first complete the MAIN INFO form based on the Intake/Interview Sheet, last year's return, and/or "proforma" (last year's carry forward return); then complete each of the forms based on the information that the taxpayer(s) provides you by selecting the form from the "forms tree" – the necessary information about the taxpayer(s) and any dependents flows to the individual forms from the MAIN INFO form
- Enter all dates in the format mmddyyyy (note, four digit years), TaxWise will insert the slashes
- Amounts can be entered with or without cents. TaxWise will round to the nearest dollar. If rounding is difficult, it is better to enter the cents value and let TaxWise do the rounding
- The general rule is to NOT use any punctuation, double spaces or dashes; however there are some exceptions. For bank account numbers enter dashes but not spaces or symbols
- When a "pick list" of values is available for a field, highlight the field and click the drop down arrow to display the list and then click on the desired value. Check that result is as desired
- Linking is accomplished by clicking on the icon to the right of the field
- Insert/Delete rows is accomplished by clicking in the row to be deleted/added and pressing **CTRL+I** or **CTRL+R**, respectively. Sorting cannot be done in tax forms, only worksheets
- Cursor can be located by noting the position of the arrowhead on the right-hand side of the field
- Understanding the colors of the fields in TaxWise is important. The colors differ based on the mode of the "Use High Color Scheme" option, which is available to all users, regardless of role, and is found by clicking the "Settings" icon on the toolbar, then "Display," and then the "Use High Color Scheme" box. Most users will find checking this option provides an easier display to see and understand.
  - With "Use Color Scheme" box checked:
    Yellow – Calculated entries or linked to another form
    Light Gray – Non-calculated entries
    Dark Blue – Overridden entries
    Orange with Red Underline – Required entry or validation.
  - With "Use Color Scheme" box unchecked:
    Light Gray with Green Underline – Calculated entries or linked to another form
    Light Gray – Non-calculated entries

Light Gray with Blue Underline – Overridden entries
Light Gray with Red Underline – Required entry or validation.

KEYBOARD SHORTCUTS

The following table describes the use of Function keys and Shortcut keys in TWO:

Command	Description
F1	Program Help
F3 or **Ctrl+Spacebar**	Toggles "Red" on and off in a field (Required/Not Required)
F8 or **Ctrl+Enter**	Toggles "Override" *
F9	Links a field to associated forms
Alt+F9	Sort in ascending order
Alt+F10	Sort in descending order
F11	Minimizes/Maximizes Internet Explorer display
Ctrl+E	Jumps to next required entry
Ctrl+I	Inserts a row
Ctrl+R	Removes row on multi-line stmt or wkt When not on a line, refreshes the page
Alt+Lg"+"	Brings up calculator

Useful Windows Shortcuts (not specific to TWO):

Ctrl+C	Copies a highlighted selection
Ctrl+X	Cuts a highlighted selection
Ctrl+V	Pastes the selection at the mouse cursor point

Moving Around on Forms

Ctrl+E	Next required (red) entry
Enter or **Tab**	Next entry
Shift+Tab	Previous entry
Home or **Ctrl+UpArrow**	First character in entry
End or **Ctrl+DnArrow**	Last character in entry
Ctrl+PageDown	Next form in tree
Ctrl+PageUp	Previous form in tree

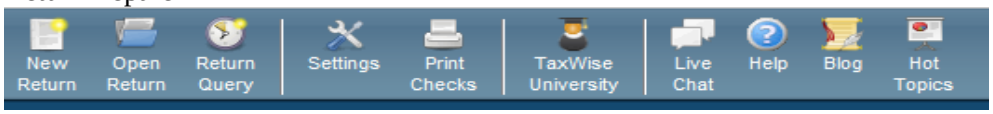
- Not all users will be able to override – the Administrator has the capability to prevent users from overriding. **The standard setting for ReturnPreparer users is to not allow overriding**
- Moving around on forms in TWO is normally accomplished by use of the Tab key, mouse pointer, or the Enter key – the PgUp and PgDown keys are not applicable to TWO. You can also use the Scroll Bar on the right-hand side of the form to quickly move up and down through the form to find the field you want
- Note that the "link" icon next to certain fields provides functionality as follows, based on the field that you are in: From left to right the choices are:
  - **Link choices** – provides list of Open or New links that can be created for this field
  - **Estimated** – provides a toggle to make the field required/non-required
  - **Calculator** – provides a calculator for this field
  - **?** – provides context sensitive help for this field

TOOLBARS

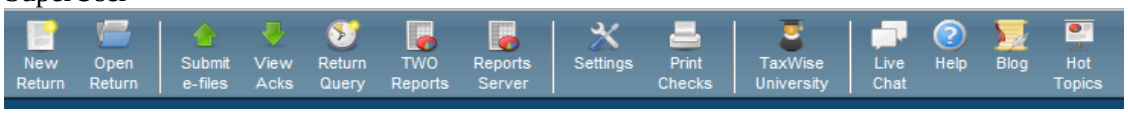
- The TWO Toolbar icons are dependent on the context that you are using, e.g., you will get one set of icons if you are not in a return and another set if you are in a return. It is also dependent on the role you are assigned, e.g., Administrator, Return Preparer, etc. These roles were described, earlier
- The following Toolbars are available in TWO for the most common user roles. Refer to the TWO User Manual for other roles. In most cases, the icons are self-evident. The Settings and icons at the right-hand side of the Toolbar when not in a return do the following:
  - Settings – allows the user to make screen display settings
  - Live Chat – Lets you participate in a chat with a TaxWise support person
  - Help – Takes you to the Help Center page
  - Blog – Takes you to the TaxWise blog on the Internet

- Hot Topics – Takes you to the TaxWise Support Site

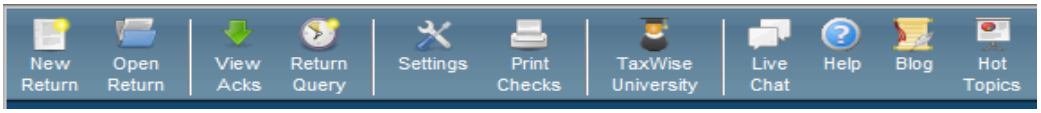
- COUNSELOR NOT IN A RETURN
  - ReturnPreparer



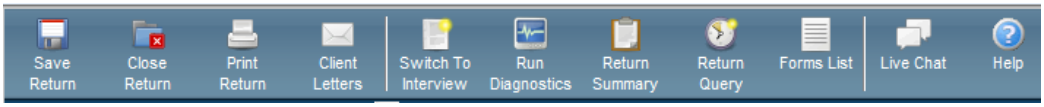
  - SuperUser



  - Interviewer



- COUNSELOR IN A RETURN
  - All Roles



- Client Letters – Allows you to select the Client Letter to print with the return
- Forms List – displays a list of forms that can be added to the return

SCREEN LAYOUT

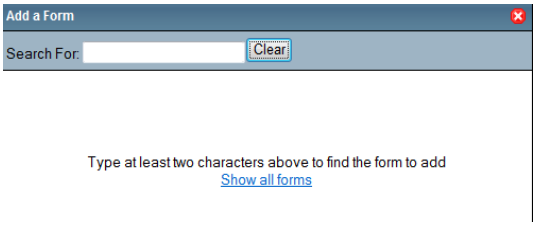
Left Side

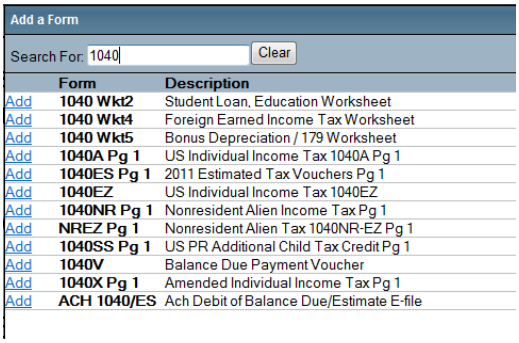
- Refund Monitor – if activated, indicates federal AGI and refunds/amounts owed on current return. Turn on/off by clicking the double caret in the "Refund Monitor" title bar
  - Clicking on the "**Check Return Status**" link will open a window with more detail on the return and also provide state information
- Loaded Forms (Forms Tree):
  - Highlights the form currently in the Work Area on the right side of the screen
  - Provides listing of forms that have been pre-loaded and added
  - Identifies status of forms listed:
    - Yellow exclamation mark - Form is incomplete
    - Green check mark - Form is complete
    - Blank - Form available in Tree, but not necessarily required
  - Turn on/off by clicking the double arrowhead above the scroll bar
- Use caution as not all forms will be visible; use the scroll bar to move down/up the tree
- Functions below the "Loaded Forms" title bar
  - Add – Adds a form to the tree and the work area. This is the same as clicking "Forms List" on the toolbar
  - Print Form – Displays a list of forms in the current return and allows you to print one form
  - Delete – Displays a list of forms in the current return and allows you delete one
  - Left and right green arrows next to "Loaded Forms" – allows you to move Up or Down in the tree
- "+" and "×" next to a form
  - Clicking "+" allows you to add another copy of the form.
  - Clicking "×" allows you to delete the form.

Right Side - TaxWise Work Area:

- Displays the current form (which is also highlighted in the forms tree)
- Context sensitive help for the form and/or field is activated by clicking the arrowhead on the right of the field

ADDITIONAL FORMS




Add a Form
Search For: 1040
Clear
Form
Description
Add 1040 Wkt2 Student Loan, Education Worksheet
Add 1040 Wkt4 Foreign Earned Income Tax Worksheet
Add 1040 Wkt5 Bonus Depreciation / 179 Worksheet
Add 1040A Pg 1 US Individual Income Tax 1040A Pg 1
Add 1040ES Pg 1 2011 Estimated Tax Vouchers Pg 1
Add 1040EZ US Individual Income Tax 1040EZ
Add 1040NR Pg 1 Nonresident Alien Income Tax Pg 1
Add NREZ Pg 1 Nonresident Alien Tax 1040NR-EZ Pg 1
Add 1040SS Pg 1 US PR Additional Child Tax Credit Pg 1
Add 1040V Balance Due Payment Voucher
Add 1040X Pg 1 Amended Individual Income Tax Pg 1
Add ACH 1040/ES Ach Debit of Balance Due/Estimate E-file

- All normally required forms have been preloaded on the Tree. Look there first if a form is needed
- Additional Forms may be accessed in any of three ways:
  1. By clicking on the "Forms List" on the toolbar
  2. By clicking on the "Add" icon below the "Loaded Forms" toolbar
  3. By clicking on the "+" in the forms tree next to the form you wish to add
- Using method 1 or 2 opens a search box that lets you enter part of the name of a form. The result will then be a list of forms that contain the phrase typed. For instance, typing "1040" will display Form 1040, Form 1040A, Form 1040 Worksheets, etc.
- Or, you can click the "Show all forms" link to display all forms
- As forms are loaded, they are also added to the TaxWise tree at the left side of the screen

HELP

TaxWise Online has several **Help** features:

- The Context Help can be accessed as described before, by clicking the arrow head to the right of the field for which you require help
- General program Help can be accessed by clicking "Help" on the Menu Bar. That will take you to the Help Center page where you can access a variety of Help resources, e.g., Program Help, State Help, User Guide, IRS and State forms and publications, business codes, etc. To get back to the return you were creating, just close the Help Center page window

CONFUSING SITUATIONS IN TAXWISE ONLINE

Linking from a yellow field with a default form

Some fields may be linked to another form by default (e.g. Sch C Line 1 is linked to 1099-MISC by default). If you need to link to a scratch pad, you must link by clicking the arrowhead on the right side of the form and then selecting the scratch pad

Field is yellow resulting from linking in error

Follow the link to the form and delete it by clicking the "X" next to the form in the Forms Tree

Taxable Income but nothing below line 43 on 1040 page 2

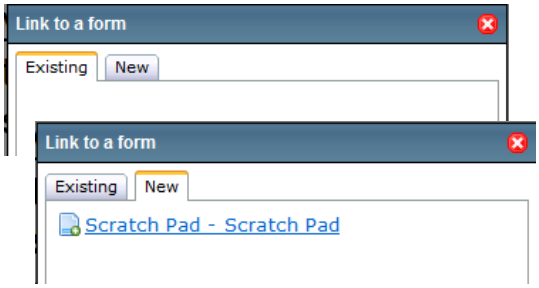
If the capital gain and qualified dividends taxed at zero percent rate are greater than the taxable income shown on line 43, all the following entries may be zero, and zero is not printed

Unintentional Override

If you make an entry in a field, and then link from that field, the field is automatically overridden and the original entry will remain - the link entries from the subordinate form will not show. As a ReturnPreparer, you will have to get help from a user with a role that allows them to unoverride that entry, e.g., a SuperUser or Reviewer. Your site manager can identify those counselors

Interest/Div worksheet

Before making an entry you must tab once to get to the first field or click in the first field



Linking

When you link to a form, you may not see any forms to link to. That is because you are on the wrong tab – there is an Existing tab and a New tab. If the form hasn't been preloaded you will

have to click the New tab. If you want to go to an existing form, you will have to click the Existing tab

REFERENCE MATERIAL

Home Page -

- Clicking on the Help icon or pressing F1 while in a return takes you to the TWO Help Center. There, you'll find numerous links to Program help, TW support, reference materials, IRS and state websites, etc.
- To get back to the return, close the Help Center

WHAT IF?

TWO does not have the "What If" functionality that is part of TWD

TWD – TWO DIFFERENCES

- The following table describes the main differences between TWD and TWO. Also refer to the TWO User Guide, which can be accessed from the TWO Home page

Item	TAXWISE DESKTOP	TAXWISE ONLINE
Insert Row	**Alt+Insert**	**Ctrl+I**
Remove Row	**Alt+Delete**	**Ctrl+R**
IRS Form Instructions	**Shift+F1**	**F1**, 1040 Help
Prior Year Carry Forward	Must restore returns to prior year TaxWise and then carry forward returns prior to creating new returns.	No preliminary steps. Prompted to carry forward data when creating a new return
Printing	Ability to create customized Federal and State print sets	Three pre-defined print sets plus the ability to create customized Federal and State print sets
Internet	High speed recommended	High-speed required
Session Return Storage	Stored locally and/or on ERO transmitting computer	Stored on CCH servers
End-of-year Return Storage	Returns must be backed up and sent to state TCS for storage	All returns stored on CCH servers
Federal/State Updates	Updates must be downloaded and installed to computers, manually	Applied automatically
Client Letter	Wide variety of client letters with conditional statements	Very limited client letters – no state information and no conditional statements
Training	Year-round training via the Training username. Must install TaxWise on computer	Year-round training via twonline.taxwise.com/training
Pull-down menus	Available	Not available (access Internet Explorer functions)

RESEARCH A TOPIC

Steps to follow in researching a topic

- Question the client thoroughly to ascertain all pertinent facts. Review the Intake/Interview sheet
- Begin your research by using Publication 4012, which provides quick access to most common questions in a format with which we are familiar
- If not found, turn to Pub 17. Start in the Index looking under a main heading first and then a subheading. You will find that you will be able to locate information more readily if you become familiar with the topics covered in each publication
- If not found, check with more experienced counselor
- Use Volunteer Hotlines listed on Page 1
- You should have the following reference material to allow you to find the correct tax law and interpretation:
  - Publications 4012 and 17
  - 1040 Instructions

- 540 Instructions
- California Pubs:
  - 1001 Supplemental Guidelines to California Adjustments
  - 1005 Pension and Annuity Guidelines

- Peruse each Cyber-tax bulletin as it is received so that you are familiar with its content. Make notations on your copies of reference materials, or file updates as quickly as possible
- In addition there are web sites that have useful information:

Tax Preparation Assistance Sites	
To locate tax basis: Historical Stock Quotes (Big Charts) Stock Information and Historical Quotes	 http://bigcharts.marketwatch.com/historical/ http://finance.yahoo.com/
Salvation Army –donation value estimates	http://www.satruck.com/donation-value-guide
All States Public Records Search – Useful for real estate taxes paid for other counties as well as State and County information	http://publicrecords.onlinesearches.com/
Education credits: searchable database of all accredited schools	http://ope.ed.gov/accreditation/
World Tax Service customized Google Tax Research Site to search tax websites to find answers to tax questions	http://taxlawfirm.googlepages.com/google_tax_search
IRS Web Site – Publications, forms, and answers to tax questions	http://www.irs.gov/
Franchise Tax Board (State of California) Web Site – Publications, forms, and answers to questions myFTB -- Get information on estimated tax payments made, balance due, CA wage and withholding information (requires prior year's state tax information to register for a CSN)	http://www.ftb.ca.gov/
Board of Equalization – Sales tax rate information	http://www.boe.ca.gov/sutax/pam71.htm

STEPS IN TAX RETURN PREPARATION

INTERVIEWING THE CLIENT

- Review the Client's Intake/Interview & Quality Review sheet
- Explain the tax preparation process
- Confirm information provided by the client on the Intake/Interview sheet and complete Section B if required
- Get client to provide any information that they might have missed on the Intake sheet
- Review all supporting documentation e.g. Social Security Numbers, Identification, W-2, 1099, etc.
- Make sure that taxpayer isn't expecting any additional documentation e.g. 1099-INT, 1099-DIV, 1099-B, brokerage statement. Review last year's return (if available)

ORGANIZING YOUR WORK

- While or after "interviewing" the client, sort all supporting documents by type in the following sequence:

Supporting Document	**Enter in Form**
Last year's tax return	MAIN INFO, carry forwards
Social Security Cards, ID card	MAIN INFO
Income	
W-2s – wages	W-2
1098-T Taxable Scholarship	1040 Wkt1
Broker Statement	Interest/Dividend Stmt, Cap Gain Wkt, 1116
1099-INT – interest	Interest Statement
K-1's and Funeral Plans	Interest/Dividend Statement
1099-DIV – dividends	Dividend Statement
1099-DIV – foreign tax paid	1116

Supporting Document	Enter in Form
1099-G State Tax Refund postcard	State Tax Refund Worksheet
Alimony Received	1040, Page 1 - Line 11
1099-MISC box 7 – non-employee income (aka Business Income)	Link from line 1b of Schedule C
1099-B Stock sales	Cap Gain Worksheet
1099-S – sale of home	Cap Gains Worksheet
1099-R /RRB 1099-R(green), IRA /Pensions	1099-R
1099-G Unemployment benefits	1099-G Wkt
SSA 1099 Social Security	1040 Wkt1 (Social Security Worksheet)
RRB 1099 (blue) Railroad Retirement tier 1	1040 Wkt1 (Social Security Worksheet)
1099-MISC Box 1 or 2 no expenses	Link from line 3, 4 Schedule E
1099-MISC box 3 – if non-business income	Link from Line 21 to 1099-Misc
W-2G Gambling Winnings	W-2G
Adjustments	
Alimony Paid-canceled checks	1040,page 1 - Line 31
IRA contribution	IRA worksheet
Lender Statement Student Loan Interest	Wkt2
Itemized Deductions	
Medical and Charitable Deductions list	A Detail form
Property tax bill, Car Registration	Schedule A
1098 Mortgage interest	Schedule A
1098-T Tuition Statement	8863/ Wkt1 /Wkt2
Payments and miscellaneous	
Canceled checks estimates paid	F/S Tax Pd
Any other papers the client brings	Various

STARTING A NEW RETURN

TAXWISE DESKTOP	TAXWISE ONLINE
• Click "Start a New Return" • The "Enter Social Security Number" screen will appear • Enter the primary SSN for the tax return • If carryforward data exists for the social security number from last year's return, you will be asked if you want to "Load it?" as soon as you have entered the SSN the first time. Select Yes to Load • If there is no carryforward data, re-key the primary SSN for verification • The file name will be randomly generated and assigned by TaxWise	• Click the "New Return" Icon • The "Create New Return" screen will appear. • Enter and confirm the primary SSN for the tax return • Click the "Go to tax forms" button • If carryforward data exists for the social security number from last year's return, a "Create New Return" window will appear that notes prior year data exists and giving you the options to "Use Carry Forward" or "Create New Return." You would normally "Use Carry Forward"

- The following are acceptable by Tax-Aide as Social Security Number verification used in conjunction with a picture ID:
    1. Social Security Card
    2. Social Security Benefit Statement Form 1099SSA or RRB1099
    3. A letter from the Social Security Administration
    4. A prior Year tax return. Carry Forward Pro-Forma is equivalent to a prior year return
    5. An IRS letter assigning an ITIN
    6. A federal or State Employee W-2 or 1099 (includes Post Office)
- Interview mode option. ***Not Recommended***
    - This is available, but not recommended. However it may be used for training
    - In this mode, you will be led through a series of questions, that when answered will populate the Main Info Screen and other document screens
    - To access the Interview feature, check the box "Start Return in Interview mode" on the Enter SSN screen. The box stays checked when future returns are started
    - You can switch between Interview and Tax Forms mode by clicking the icon on the Toolbar.

PROFORMA/DATA CARRYFORWARD

- A "proforma" return may exist if last year's tax return was prepared by the local Tax-Aide site/district or you used TWO in the prior tax year. After you initially enter the taxpayer's Social Security Number, you will be given the choice to "Carry forward data" from last year's return
- Be sure to review any comments on the bottom of the Main Info Page or the Prep Use Form
- Data entry will be simplified as the return will be populated with most of the "indicative" information such as names, dates of birth, telephone numbers, W-2s, 1099s, payers of interest and dividends, etc. from last year's return
- Only a few dollar amounts, such as federal capital loss carryover, charitable contribution carryover, Summary Form, and 1099-R Simplified General Rule are populated
- The key fields that are carried over will be "red," as a reminder that you must review the information with the taxpayer, either confirming that they are still accurate (use F3 or, in TWO, Ctrl+Spacebar to remove the red) or updating them as needed. All dollar amounts must be entered from the current year tax documents
- You will need to remove and/or add forms as appropriate (e.g. the taxpayer changed employers and hence received a different W-2, in which case you must delete the W-2 for the previous employer and add a W-2 for the new employer)
- You may also need to delete lines (rows) from a schedule (e.g. a dependent is no longer to be included in the return or interest was not received from a payer used in the prior year) – right click on the entry and select "delete row" or, in TWO, Ctrl+R to delete the row
- While "Carryforward data" makes completion of the return much faster and more accurate, you do need to check the return carefully to ensure that any year-to-year changes have been reflected and that unused entries/forms are not included in the new return. Otherwise the sequence of actions to complete the return is the same as though you are doing the return without "proforma"
- Since Carry Forward information is last year's tax return, this is sufficient validation for Names and Social Security Numbers. It is suggested that The Intake and Interview sheet be marked with "P" for Proforma preceding "Names and Social Security Numbers" to advise the Quality Reviewer of the verification. However, if there are changes in spouse or dependents (or ITIN changed to SSN), mark with "P +" so Quality reviewer can look at the new or changed Cards

MAIN INFO FORM

- Enter all pertinent information; if a "proforma" return is being used, use F3 or, in TWO, Ctrl-Spacebar to clear the red after confirming the information is correct for this year
- Do not use any punctuation except as noted
  - Commas, &'s, slashes and periods are not allowed
  - Double spaces are not allowed

Name field

There are four Name fields:

- Salutation field is optional. Enter Mr, Mrs, etc or leave blank (recommended)
- Enter Taxpayer's first name(s), initial and last name as shown on the Social Security Card (dashes allowed)
  - For returns with carry forward data, use the name as entered and successfully filed last year
- When the return is e-filed, the first check is that the first four characters of the last name match the IRS' records. When the social security card indicates multiple names, enter all but the last in the first name field, leaving a space between each name (e.g. SAM HUNTER ALBERT). For some Hispanic names, the last two names may constitute the legal last name, in which case they should both be entered in the last name field. It is good practice to enter questionable names as shown on the Social Security or ITIN cards in the free-form note field at the bottom of the MAIN INFO form for use by the ERO in case the name rejects. Refer to examples in Pub 4012
- Enter the spouse's first name and initial for Married Filing Jointly only. Enter the last name only if it is different than the primary taxpayer's
- Once the spouse's name is entered, his/her SSN will become a required field

See below for Deceased Spouse/Taxpayer
See "Starting a New Return" above for acceptable means of SSN verification

Mailing Address

- Name line 2– this is used ONLY if address requires four lines or in the case of a **deceased taxpayer** , see Deceased Spouse/Taxpayer below
- Current mailing address – enter the taxpayer's street address (fractions allowed) or Post Office Box

CA Note: **If the street address contains an Apartment Number or PMB and it doesn't fit on the address line, update page 1 of the CA540 now so that is not overlooked**

- The FTB database stores addresses using a shorter field format from that of the IRS database. If the entire address does not show in the limited field on Form 540 Page 1, FTB wants a breakout of apartment and suite addresses (numbers) into three separate fields – street address, type of unit, and unit number. If this is necessary, you must:
  - Check the "Check here to change the address listed below" box on page 1 of the CA 540
  - In the box to the right of the federal address line, enter APT or BLDG, RM, SP, STE, UN
  - In the box below, enter the apartment (or other) number
  - Remove the partial apartment (or other) information from the state address leaving just the street address
- ZIP code – entering the ZIP code automatically fills the city and state, however you may need to overtype the city if the ZIP code is shared by multiple cities. If you get a popup box for a new ZIP code, make sure that you have typed a valid ZIP code
- Foreign Addresses are entered in a separate section lower on this form. If foreign address is used, notify ERO for separate e-filing

E-Mail Address

If the taxpayer has provided an email address on the intake form, enter it here

Telephone Numbers:

- We need a telephone number to call the taxpayer if the return is rejected or there is an error
- Enter taxpayer's daytime/evening/and especially cell phone numbers
- This field may be left blank if they do not have a telephone

Birth Date

This is required for each taxpayer to calculate eligibility for various credits, and must agree with the IRS's records if certain credits are claimed

Taxpayer Occupation(s)

- Complete as appropriate. RETIRED, UNEMPLOYED, STUDENT are acceptable
- If this is a joint return, enter the spouse's occupation
- DECEASED is the appropriate entry if the taxpayer or spouse died during or after the tax year

Taxpayer Information

- Special Processing, used by military, is out-of- scope. Refer to military base
- Exclusion of Puerto Rico Income is out-of-scope
- Determine if the taxpayer and/or the spouse qualify as blind or totally disabled. If so check the appropriate boxes. A letter from physician/optometrist should be kept by the taxpayer if this is the first time they qualify as blind or totally disabled

See below for Deceased Spouse/Taxpayer

Presidential Campaign

Check the appropriate boxes if the taxpayer and/or spouse wish to direct this amount of their tax to the Presidential Campaign Matching fund

Filing Status

- Click and enter correct filing status
- An individual is "married" if they are married under domestic or foreign law
  - Married status continues until the marriage is dissolved by divorce or death
  - This applies equally to common law marriages
  - It also applies if the spouse resides outside of the US

- In the event the spouse does not have a social security number or ITIN, the primary taxpayer is still considered married and must file MFJ or MFS (MFS is ***out-of-scope***, see Married Filing Separately exception below)
  - MFJ requires an ITIN and an election to be treated as a resident, also ***out-of-scope***
- Head of Household- Enter a name of a qualifying person only if they are not a dependent

Deceased Spouse/Taxpayer

- If filing MFJ and the primary listed on the prior year's return has died, DO NOT carryforward data
  - Start a new return listing the survivor as the primary
- Enter date of death in the appropriate field
  - If this is a joint return (based on the filing status of MFJ), TaxWise will automatically show the return as being filed by surviving spouse
- The combined name fields must not exceed 30 characters when there is a deceased taxpayer
  - Jonathan & Elizabeth Smith would be 26 characters counting all spaces
  - If names exceed 30 characters, delete middle names, abbreviate first names, or truncate names
- Enter name of surviving spouse OR the name and address of person handling the estate in the Name line 2 of the mailing address
  - Enter "%[space]" before the name
  - ***TWO note:***: do not use % if not MeF
- ***CA Note:*** Go to CA 540 Pg 1, Deceased Taxpayer or Spouse Information
  - The executor / guardian information must be entered
    - If the surviving spouse is filing the return, enter the surviving spouse's name/number
    - If there is only a beneficiary (acting as an executor), enter the beneficiary's name/number
    - Failure to complete the executor/guardian information will cause an e-file reject
  - Complete the decedent representative information
    - If filing as a surviving spouse, TaxWise completes "Decedent Representative" with the survivor's name; check the spouse box
- ***CA Note:*** Go to CA 8879
  - Complete ERO declaration using the same name and representative type listed on CA 540, page 1
- Occupation: DECEASED is the appropriate entry if the taxpayer or spouse died during or after the tax year
- Deceased person-signature requirements
  - A Power of Attorney (POA) expires at time of death
  - A surviving spouse will sign the return and add "as surviving spouse" after their name
  - A personal representative or executor will sign their own name with their title
- Form 1310 Refund due a deceased taxpayer will be required if the return is filed by other than a surviving spouse and there is a refund
- If preparing estimated payments for next year, use bottom of 1040-ES Pg 1 to change name to survivor only
- *Deceased taxpayer returns take extra time to process.*

Married Filing Separately

- This filing status can be used by Tax-Aide only if all 7 of the following conditions are met:
  1. Couple lived apart the entire year AND there is no intention to reconcile
  2. No commingling of funds
  3. California full year resident
  4. Name and Social Security number of spouse available (or Non-Resident Alien)
  5. Spouse believed to take standard deduction
  6. Approved by Site Coordinator.
  7. Marriage is recognized by the IRS (no SSMC)
- Enter the spouse's name and Social security number on the MAIN INFO sheet, and answer the questions after the MFS filing status box
- A "Comm Prop" form will appear "Red" on the tree
  - Check whether this is the husband or wife, and enter the total income in the first column
  - There should be no entries in the column for the non-client for the situations we handle
- On Form 1040 line 39b, F3 the MFS box

- This return can be e-filed

Exemptions

- Verify if someone else can claim the taxpayer or spouse (if applicable) as a dependent
- Check appropriate boxes

Dependents

- Complete information as necessary, do NOT enter last name if it is the same as the taxpayer's
- Enter youngest first so that the EIC worksheet uses the most eligible children
- Birth Date – without the slashes
- Social Security Number – without the dashes
- Relationship to taxpayer – choose from the pick-list or enter first letter
- Mo in Hm (home) – choose number of months the dependent lived in the home from the pick list. If you enter 1 and tab, 12 will appear in the field (use 12 for dependents who were born or died during the year)
- Code Field – enter the appropriate code from the dropdown list
  - Use "Context Sensitive Help" if you cannot see the list
  - For a noncustodial parent claiming a child who did not live with them for more than 6 months, be sure to enter Code 2
  - Use Code 1 for a grandchild that is a Qualifying Child
  - For a custodial parent that has signed an 8332 and can no longer claim the child as a dependent, but can claim EIC and HOH, enter code 0
- DC = Dependent Care Credit. Check this ONLY if the taxpayer has dependent care expenses for the person (this adds form 2441 to the Forms Tree)
- EIC = the rule is to always check the box for dependent children, as TaxWise will open the necessary forms and make the correct decision regarding EIC
- CTC = Child Tax Credit. This is a calculated field which TaxWise will complete
- If there are more than four dependents:
  - Enter the first four on the MAIN INFO form (make sure that those who qualify for EIC are entered there)
  - Open 1040 page 1, click on dependent line and link, to "Addl Deps – Form 1040 line 6c" and add dependents
- If a dependent child has more than $1,900 of investment income the child may be subject to the kiddie tax. Form 8615 and the return of the child are ***out-of-scope***

Noncustodial Parents

- If a noncustodial parent is to claim a dependent along with the CTC, they must have a Form 8332 signed by the custodial parent relinquishing their right to claim the dependent
- A custodial parent can NOT give away HOH status, EIC, or the Dependent Care credit
- Form 8332 must be transmitted to the IRS with a Form 8453
  - Form 8453 will be generated by checking the Form 8332 box under noncustodial parents (which becomes red if Code 2 is entered to show that the child does not live with the taxpayer)
- A custodial parent can revoke the "Release of Claim to an Exemption" by completing Part III of Form 8332.
  - The revocation is effective in the year after notice is furnished to the noncustodial parent
  - A copy of this revocation must be transmitted with the return for each tax year the child is claimed as a dependent as a result of the revocation
- Two copies of the 8453 and 8332 shall be given to the ERO for transmittal to the IRS

State Information

- The default is "CA, Full Year Resident"
- CA non-resident or CA part-year resident returns are ***out-of-scope***
- We should always prepare and file a CA return if a federal return is being filed. However there will be situations where the taxpayer(s) lived in another state the prior year and are not required to file a CA return or they do NOT want a CA return filed or have already filed a "Ready Return," in which case simply check the appropriate box AND remove the full-year resident "CA" entry

Type of return
- The default is e-file – there should be VERY few instances where a return cannot be e-filed
- Refer to Final Steps for the procedure to change from e-file to paper

Bank Products
Bank Products (RAL-Refund Anticipation Loan, RAC-Refund Anticipation Check, as well as Audit Shield and Fee Collect Money Card) are not used by Tax-Aide

Bank Account Information
- Generally you will complete this section after all other entries, as it applies ONLY IF the taxpayer(s) have a refund due OR want to pay their balance via an ACH direct debit
- See Refund or Balance Due below for detailed instructions

Practitioner Pin
- The ERO PIN has been entered as a default
- The Taxpayer PIN (12345) has been entered for both taxpayers as a default (if not, enter now). It is not necessary to remove the PIN for the spouse if there is no spouse
- Enter the date in the required field
- Form 8879 electronic signature documents will be generated

Identity Protection PIN
If a taxpayer has experienced identity theft, and has previously worked with the IRS to fix this, the IRS will issue a CP010 letter with a onetime use PIN for filing a return. Enter that PIN here

Third Party Designee
- If we have an elderly client that is accompanied by their adult child and the client seems to depend on the child for understanding your interview questions, the client may be asked if they would like to designate someone to receive any correspondence from the IRS
- If they agree, they will have to provide a name, phone number and PIN so that the third party may discuss the return with the IRS
- Tax-Aide counselors may **never** be the third party

Tax Preparer Notes
- Use the 3 lines at the end of Main Info for notes that will print and proforma to next year

NOTE: **The following paragraphs use "go to …" a form or worksheet. Individual Districts/Sites may set up their Forms Tree differently. If the noted form is on the tree, click on it; if the form is not in the Form Tree, add the form as explained earlier.**

PREPARER USE FORM

This form provides several alpha-numeric fields, all 15 characters wide that can be used by local sites as they wish. However,
- Fields 11 and 12 are for entry of the answers to the questions regarding, a. the languages spoken in the home and, b. whether or not there is a handicapped person in the home. This information can be determined from the Intake Sheet or F3 if prefer not to answer
- Field 13 is reserved for the Counselor's initials
- Field 14 is reserved for the Quality Reviewer's initials – this field is required for Activity Report Tracking
- Field 15 should contain the SIDN

Taxpayer Reminders
- At the bottom of the form there is a three-line field where free-form text can be entered - this will appear the next year if "proforma" is used
  - See also Tax Prep Notes at the bottom of the Main Info form
- Check to see if there are comments from the prior year's return to indicate "problems" and/or an amendment
- Remove any notes from prior year if they no longer apply
- Use this field to record any pertinent information regarding the current year's return

- Use this field if you have any doubts what the first, middle initial and last name are for anyone listed on the return. Document them as they are listed on the social security card. This way the ERO can use this information if the return rejects due to name/SSN/birth date mismatch without having to call the taxpayer
- If the return is not completed, show information or actions necessary to complete the return
- Enter any references/notes for next year's preparer (deaths, births)

PREPARER NOTES

Prep Notes is a form that is sent with the return available in TWD and TWO. Do not confuse this with the Preparer Use Form

INCOME

LINE 7 ------- WAGES, SALARIES, AND TIPS

Go to W-2

W-2- Top Section

- Select either Taxpayer or Spouse at the top of the form (required only for MFJ)
- The "Check if W-2 is handwritten, altered, or appears not to be a true W-2" should be used ONLY IF the W-2 is truly suspect
- Check the appropriate box for address information – if the taxpayer's current address is not the address shown on the paper W-2, the "Check and make changes" box allows you to overwrite and change the address field to agree with the address shown on the W-2. If no address is shown on the W-2, leave the default address here
- Skip the second line in this section, which is only used for a foreign address
- After you complete the W-2 data entry (skipping boxes 3 to 6), check to see if the amounts in Boxes 3, 4, 5 and 6 agree with the paper W-2. If they are different: Check the box labeled "Check to take calculations off lines 3, 4, 5, and 6" at the upper left and enter correct data in those boxes
- If the Taxpayer uses an ITIN, the SSN on the paper W-2 must be entered (see below)
- Do NOT enter anything in the "control number"
- Check the "Corrected W-2 (W-2-C)" box if it is a corrected W-2
- See W-2- State Section below if state wages are different

W-2- Employer's ID, Name and Address

- The employer's (tax) identification number (EIN)
- If the EIN is missing, the tax return cannot be e-filed
  - Do not create a bogus number or enter a social security number as the return will be rejected
  - The taxpayer must contact the employer to get a valid EIN number
- If the computer has encountered this EIN on another return during the current season, the name and address information will be filled in by TaxWise
  - Make any changes necessary so that the information in TaxWise matches the paper copy provided by the taxpayer
  - ***TWD:*** ampersand (**&**) and hyphen (**–**) are allowed; slash (**/**) is **not** allowed
  - ***TWO:*** ampersand (**&**), hyphen (**–**) and slash (**/**) are allowed
- W-2's issued by California In Home Care will show the name of the person being cared for (often a relative) as the employer and a CA tax ID assigned to that person
- TaxWise will calculate the Name code field
- Recheck that the Employer's name and ID match the W-2 exactly, as the e-file will reject if these do not match IRS records

Employee SSN when filing under ITIN

- If the employee is filing using an ITIN, the paper W-2 will have a SSN that is not theirs
  - There will be a check box at the top of the W-2 that will be automatically checked if an ITIN is used
  - There will be a new field that requires the SSN shown on the paper W-2
  - No changes are required to "line d" on the W-2

- Prior to 2011-The SSN on the TaxWise input form W-2 "line d" will show the ITIN and must be overridden using F8 to enter the SSN which appears on the paper W-2
  - Your site coordinator may have to edit this return to accomplish the override

Employee SSN incorrect

- If the taxpayer has a SSN and the SSN is incorrect on the W-2 document, the employee must request a corrected W-2
- If a corrected W-2 is not yet available, do not change the correct SSN on the TaxWise W-2 input form to match the incorrect SSN paper W-2

W-2- Dollar Value Boxes

- The entries in this section must be **an exact match** (rounded) of the paper W-2
- If the amounts in Boxes 1, 3 and 5 on the W-2 are not all the same:
  - Enter the amounts on Line 7 and 12. TaxWise calculates the correct amounts for lines 3, 4, 5 and 6
  - If the entries still do not agree with the W-2, check the box labeled "Check to take calculations off lines 3, 4, 5, and 6" at the upper left and Type the correct amounts from the W-2 in boxes 1, 2, 3, 4, 5, and 6
- Box 7: Social Security Tips are reported here. TaxWise will automatically adjust boxes 3, 4, 5, and 6
- Boxes 9 and 10: Dependent Care Benefits are reported here. These are rare, but it is VERY important that they are entered accurately as they directly affect other benefit calculations
- Box 12: the more commonly encountered codes are listed below; for an explanation of all the codes use help:
  - ***TWD:*** F1 "Explanation of Box 12 Codes"
  - ***TWO:*** F1 Program Help, IRS Codes, Miscellaneous_Codes, W-2, Box 12-Codes

Box 12 Code	Description
A, B, M, N	Uncollected amounts, including Social Security or Medicare taxes, which TaxWise will correctly transfer to 1040, line 63
C	Taxable cost for group term life insurance. Quite common, does not change anything
D, E, F, G, H, S	Elective deferrals, which can make the return eligible for the Savers Credit, which is subject to income limits (also see Y below)
J	Non-taxable Sick Pay
K	20% Excise tax on excess golden parachute payments
L	Substantiated employee business expense reimbursements. Not taxable; however if form 2106 is filed, the amount would go on line 7
P	Excludable moving expenses. If taxpayer(s) deductible moving expenses are not greater than this amount, Form 3903 does not need to be filed (out-of-scope)
Q	Non-taxable combat pay. Optionally used to calculate Earned Income Tax Credit, however generally out-of-scope for Tax-Aide. TaxWise will pick the correct option
R	Employer contributions to an Archer Medical Savings Account (MSA) (out-of-scope)
T	Adoption benefits
V	Income from the exercise of nonstatutory stock options
W	Employer contributions to an employee's Health Savings Account (HSA) will put 8889 on tree
Y	An elective deferral that is NOT eligible for Savers Credit
Z	Income under section 409A on a nonqualified deferred compensation plan
AA	Designated Roth contributions under a section 401(k)plan
BB	Designated Roth contributions under a section 403(b) plan
DD	Cost of employer-sponsored health coverage

- Code W - HSA Employer Contribution
  - Employer contributions to an HSA are not taxable for federal. TaxWise handles code W properly
  - ***CA Note:*** Contributions made by an employer to a Health Savings Account and shown in box 12 code W of the W-2 are not federally taxable, **but** they are taxable by California and **must be manually added** to Line 7 Wages on CA Sch CA
    - Go to CA Sch CA Line 7 NOW and link to a scratch pad in the Additions column
    - Describe as HSA employer contribution and enter the amount as a positive figure

- Box 13: Check the Retirement Plan or Third Party Sick Pay to agree with the W-2
  - The retirement plan box determines IRA eligibility rules
  - Statutory employee income is reported on Sch C, but not Sch SE as Social Security and Medicare taxes have already been withheld. Input income on a separate Sch C and check the statutory employee box
- Box 14: Enter the code(s) and dollar amount(s) shown on the W-2:
  - These entries will not affect the tax return. However if there is an entry for a retirement contribution in this box (e.g. RET TS), this might be an elective contribution. You need to ask if this is the case. If so, then you need to check the box that generates Form 8880, and fill out accordingly
  - If it appears that items are in Box 14, but should be in Box 12, confirm with your LC / QR before entering in Box 12
    - Carefully select the proper Box 12 code
- RR fields: complete to conform to paper W-2.

W-2- State Section

- Box 15 Enter the State ID number without dashes or spaces (TaxWise truncates the carryforward for the following year after 9 numbers)
  - The State ID number is NOT the same as the federal ID number
  - If the State ID is blank on the W-2, enter six nines (999999) in TaxWise
  - The State ID is not required if there is no State Tax withheld
- Box 16: State wages may be different than federal, in which case check the "take calculations off line 16, state wages" box at the top of the TaxWise W-2 screen and enter the correct amount in Box 16
  - ***CA Note:***
    - TaxWise does **not** carry the state wages difference to CA 540
    - You must **manually** enter the adjustment amount on form 540 CA Sch CA as an addition or subtraction
- Box 19 (local tax)/Box 20 (local name): DO NOT USE for CASDI, SDI, UI, UD, VPDI, VP, or VI.

Instructions For W-2 – California W-2s Only (At Bottom Of Form)

- Enter the SDI literal (CASDI, SDI, VPDI, etc.) and the amount so that TaxWise can calculate the amount to be carried forward to Schedule A as an income tax deduction and claim a refund for any excess State disability insurance payments on the CA return
  - VPDI is included in determining excess SDI contributions, but is never carried to Schedule A as it is not considered a tax. TWD and TWO handle this correctly
- The maximum amount subject to SDI for 2012 is $95,585 resulting in $955.85 withholding
- In the rare instance when a W-2 shows multiple SDI codes and amounts, enter the sum of the amounts

Sick Pay

If a W-2 reports Nontaxable Sick Pay in Box 12 with a code J and no other entries, it is not necessary to enter the W-2 in TaxWise

Substitute W-2

- If the client has not received a W-2 by February 15th and has attempted to get a copy from their employer and failed, a substitute W-2 can be used. You will need a pay stub for the last pay period worked that shows cumulative pay and withholding. Proceed as follows:
  - Open a W-2 and place the cursor in the Employer's name field
  - Link to "New 4852 Substitute W-2 or 1099-R"
  - Complete the form
- If a substitute W-2 form is completed, you must file a Paper return
- Form 4852 prints with the return and must be signed and attached to the return with any other W-2

Scholarships, Fellowships & Grants – W-2 or 1098-T

- Reportable on the return of the person receiving the scholarship, even if they are the dependent of another taxpayer
- If a W-2 was received (usually pay as a TA), the whole amount is taxable and cannot be reduced by expenses

- If a 1098-T was received and the income is greater than the expenses shown on form 1098-T, use 1040 Wkt1, top section
  - The scholarship amount MUST be reduced for tuition, fees, books and equipment **if** the scholarship is awarded specifically to cover these expenses
  - The scholarship amount MAY be reduced for actual expenses if the scholarship is not specific
  - The 1098-T shows only the tuition and fees so the amount spent for books and equipment must be determined by the client
- ***Note:*** An education credit cannot be claimed for any expense used to reduce the taxable scholarship amount
- You must use Worksheet 1-1 in Pub 970 to determine the taxable portion, which requires that you ask questions about how the money was used. Pub 4012 also shows taxable/non-taxable items
- ***Note:*** Student loans are never income and expenses paid with borrowed funds are eligible for credit or deduction, if the requirements are met

Indian Tribal Income

- Tribe members may work for the tribe or at the tribe's casino for which they will receive a W-2
- Always taxable for federal
- ***CA Note:*** Indian Tribal Income is exempt from CA taxes ONLY WHEN the recipient is living and working on Indian tribal land
  - An adjustment on CA Sch CA is required if exempt from CA taxes
  - Enter an adjustment on CA Sch CA Line 7, with a scratch pad

Tip Income

- TaxWise adds tip income entered on the W-2 screen to Line 7 of the 1040
- All tip income is taxable for federal and CA
- If unreported tip income is received, go to Form 4137 and enter unreported tip income on Line 4 (allocated tips are transferred here from the W-2)
  - If there are other unreported tips, use F8 on line 4 to adjust
  - These unreported tips are added to 1040 Line 7 Wages
  - Amounts included in line 4 that are less than $20 in a month are not subject to Social Security or Medicare tax and are entered on line 5
- Form 4137 is automatically populated with the employer name and EIN if there are allocated tips on the W-2. However, if there are no allocated tips, either enter $1 in allocated tips on the W-2 or you'll have to enter the employer information on the 4137 - Override (F8 or Ctrl-Enter) this field and type in the information

Household Employee income

- A household employee who did not receive a W-2 because the employer paid less than $1,700 for the entire year reports the income on Form 1040 Wkt1
- The amount is transferred to 1040 line 7 with "HSH" and the amount of household employee income is shown
- ***Note:*** this is reported on Schedule C ONLY WHEN the client has an independent business

LINE 8 ------- TAXABLE INTEREST

Seller-Financed Mortgages (Sch B, line 1a)

Go to Sch B

If the taxpayer (seller) is using an Installment Sale plan to report Capital Gains on a sale over a period of time, the return is *out-of-scope*

- If the income is solely from interest, fill in the required information about the payer
- If the seller has interest income from MORE THAN one payer, EACH item must be entered on a supporting worksheet
  - Link to "NEW Seller List – Schedule B Seller Financed Mortgages"
  - Complete the required information for each payer

Interest Income

Go to Interest Stmt - tab to first field or the amount field if payer is already shown

RULE: All interest entries MUST be made using the Interest Statement; NOT directly on Schedule B

- Do not leave a blank line(s) between entries. To add or delete a line:
  - ***TWD:*** right click and select "insert row" or "delete row"
  - ***TWO:*** Ctrl+I to insert a row or Ctrl+R to delete a row
- Only ONE Interest Statement is allowed per return. Always return to the same one when adding additional entries
- If there are entries in both Boxes 1 and 3 (for US Government Bond Interest) of a 1099-INT enter each on a separate line on the interest statement – do not combine the amounts
  - ***CA Note:*** Interest income paid on US Savings Bonds, Treasury Bonds and other direct obligations backed by the US Government are generally not taxed by California and include federal Land Banks and Federal Home Loan Banks. They do **not** include Fannie Mae and Freddie Mac.
    - Enter a "-" in the "State Adjust +/-" column in the Interest Statement and enter the adjustment amount
- Tax-Exempt interest on state or local bonds, or mutual funds holding these bonds, must be included on the interest statement in the NAEOB (detailed description in Pub 4012) amount column
  - If an account has regular and tax-exempt interest, enter each on a separate line on the interest statement – do not combine the amounts
  - ***CA Note:*** State and municipal bond interest from states other than CA, which is identified as federal tax exempt, is taxable for CA
    - Enter a "+" in the State Adjust column on the interest statement and enter the adjustment amount
- ***CA Note:*** CA does not recognize HSAs. Interest or other income earned in an HSA account is currently taxable
  - Add a line for HSA on the Interest Stmt and enter a "+" in the State Adjust column on the interest statement and enter the adjustment amount
- If either the NAEOB or State Adj amount field is red and there should not be an entry, remove the entry in the field before the red "amount" field ("E" or "+/-")
- Completing the Statement:
  - Payer – Payer name, may be abbreviated
  - Box 1 or 3 Amount – Amount entered will be reflected on both the federal and the CA returns
  - For Federal Tax Exempt interest, do not enter an amount in the first (Box 1 or 3) Column
  - "TSJ" – leave blank, it does not apply as CA is a community property state
  - Complete the NAEOB information before entering any State Adjustment. Generally you will ONLY use E=Tax Exempt from BOTH federal and state taxes
    - Enter the letter to define entry
    - Enter the Exempt Amount

HINT: **Complete the interest statement as if there is only a federal return. Then ask the question "is the interest treated differently by CA" to determine the needed State Adjustment, if any**

- State Adjustment entries are used for differences between federal and state tax law (e.g. where the amount is not taxable for federal but is taxable for state or vice versa – see examples C, E and F below); enter "+" or "–" to indicate whether the amount is or is not subject to state tax and the amount
- If there are entries for Box 9-AMT PAB (Alternative Minimum Tax-Private Activity Bonds) enter them and then make sure that Alternative Minimum Tax line 45 is not shown on 1040 page 2, which would make the return ***out-of-scope***
- Early Penalty – any early withdrawal penalty as shown in Box 2 on the 1099-INT. This is transferred to 1040 Line 30
- Federal Withholding - enter any federal withholding shown in Box 2 on form 1099-INT

Examples of Interest Income

	Payer	Box 1 or 3 Amount	TSJ	State Adjust +/-	State Adjust Amount	NAE OB	NAEOB Amount	AMT PAB	Early penalty	Federal withheld
A	CHASE BANK	2000			0		0		0	0
B	BANK OF AMERICA	100			0		0		40	0
C	US GOVERNMENT BONDS	666		–	666		0		0	0
D	CA STATE BOND	0			0	E	111		0	0
E	OTHER STATE BOND	0		+	333	E	333		0	0
F	PART STATE TAX FREE BOND	0		+	30	E	70		0	0

- **Example A:** $2,000 ordinary interest from Chase Bank, reported on form 1099-INT, box 1, substitute 1099-INT, or brokerage statement
  - Taxable on both the federal and CA returns
  - Enter "2000" in the "Box 1 or 3 Amount" column
- **Example B:** $100 interest from Bank of America Box 1 with early withdrawal penalty($40) Box 2, reported on form 1099-INT, substitute 1099-INT, or brokerage statement
  - Taxable on both the federal and CA returns
  - Enter "100" in the "Box 1 or 3 Amount" column and "40" in the "Early Penalty" column.
- **Example C:** $666 interest from a bond issued by the United States Government; which includes savings bonds, reported on a 1099-INT Box 3, substitute 1099-INT, a statement from the US Bureau of Debt, Treasury Direct, or brokerage statement
  - Taxable on the federal return, exempt on the CA return
  - Enter "666" in the "Box 1 or 3 Amount" column.
  - Enter "–"in the "+/–" column and "666" in the "State Adjustment Amount" column.
- **Example D:** $111 interest from a CA municipal bond, reported on a statement issued by the state/municipality or a brokerage statement.
  - Not taxable on either the federal or CA returns – no state Adjustment required
  - Do not enter anything in the Box 1 or 3 Amount columns
  - Enter an "E" in the column headed "NAEOB" and "111" in NAEOB amount column
- **Example E:** $333 interest from a state OTHER THAN CA municipal bond, reported on a statement issued by that state or a brokerage statement
  - Not taxable on the federal Return, taxable on the CA return
  - Do not enter anything in the Box 1 or 3 Amount columns
  - Enter an "E in the column headed "NAEOB" and "333" in NAEOB amount column
  - Enter "+" in the "+/–" column and "333" in "State Adjustment Amount" column
- **Example F:** $70 interest from a tax-free municipal bond fund, reported on a mutual fund substitute 1099 statement or brokerage statement. Taxpayer-provided brokerage papers show that 57% is from CA municipal bonds ($70 x 0.57 = $40)
  - Not taxable on the federal Return, partially taxable on the CA return
    - The portion of interest coming from federal and/or CA investments is exempt from CA tax
  - Do not enter anything in the Box 1 or 3 Amount columns
  - Enter an "E" in the column headed "NAEOB" and "70" in NAEOB amount column
  - Enter "+" in the "+/–" column and "30" in "State Adjustment Amount" column

California exemption rule

- Generally the fund will indicate how much is exempt from state tax on a separate statement
- The general rule is:
  - If less than 50% comes from federal and/or CA, ALL is taxed by CA

- If 50% or more comes from federal or CA, only that specific portion of the amount is exempt from CA tax; you must manually calculate the amount based on information from the mutual fund/broker provided by the taxpayer
- Certain mutual funds pay "exempt-interest dividends," which are essentially the same as tax-exempt interest under a different name; the same 50% of assets rule applies

OID Interest

Treat OID interest as regular interest; OID adjustments are out-of-scope UNLESS the taxpayer provides the information needed for an OID adjustment, in which case:

- Enter the total interest received in the "Box 1 or 3 amount" column
- Enter the letter "O" (not a zero) in the "NAEOB" column
- Enter the non-taxable amount provided by the taxpayer in the NAEOB amount column

Simple K-1s and Prepaid Funeral Plans

- Pre-Paid Funeral/Burial plans report income earned on the prepaid funds on either a K-1 or substitute (letter format) document.
- Income reported on a K-1 is from partnerships, S-corporations, trusts and estates. These are ***out-of-scope*** for Tax-Aide; however an exception is made if income consists only of interest, dividends, royalties and/or capital gains
- Because of TaxWise peculiarities, it is strongly recommended that no entries should be made on the TaxWise K-1 form
- Entries into TaxWise shall be done as follows. Show Payer as "*[name of payer] K-1*":

Hint: Line numbers vary by form (1041 K-1, 1065 K-1 or 1120S K-1) – go by line description

This Entry on K-1	Enter on Form	In This Place
Interest	Interest Stmt	Box 1 or 3 Amount
And If tax exempt (Fed & Cal)	Interest Stmt	"E" in NAEOB, amount in NAEOB amt
And If tax exempt (Fed only)	Interest Stmt	"+" and Amt. in State Adjust Amt (same line)
Total Ordinary Dividends	Dividend Stmt	Total Dividends
Qualified Dividends	Dividend Stmt	Qualified Dividends
Net Short-term Capital Gain/Loss	Sch D Pg 1	Sch D Line 5
Net Long-term Capital Gain/Loss	Sch D Pg 1	Sch D Line 12
CA: Net capital gain/loss ***Note:*** Fed does not carry to CA; CA amount from CA k-1 may differ	CA D	Line 2 Loss and/or Gain, as applicable
Unrecaptured 1250 Gain	Dividend Stmt	1250 Gain
Royalty	Sch E Pg 1	Sch E Line 3
28% Rate Gain or Loss (Collectibles)	Dividend Stmt	28% Gain (negative if loss)
All other amounts on the K-1 "Out-of-scope"		

LINE 9 ------- DIVIDENDS

Go to Dividend Stmt - tab to first field or amount column if payer is already shown

RULE: All dividend entries MUST be made on the Dividend Statement, NOT directly on Schedule B

- This information may come from a 1099-DIV, substitute 1099-DIV or a brokerage statement
- **Do not leave a blank line(s) between entries.** To add or delete a line:
  - ***TWD:*** right click and select "insert row" or "delete row"
  - ***TWO:*** Ctrl-I to insert a row or Ctrl-R to delete a row
- **Only ONE Dividend Statement is allowed per return.** Always return to the same one when adding additional transactions

Completing the Dividend Statement:

- **Payer** – Payer name, abbreviated if necessary

- Enter name of brokerage or processor issuing the 1099, not the individual stock or fund names. The company that issues the stock will be the processor if the client holds the stock directly
- **Ordinary dividends** – enter the dividends shown on the 1099-DIV. Entries will flow to the state return
- **Qualified dividends** – Enter the dividends shown on the 1099-DIV
  - ***Note:*** this amount is a subset of Ordinary dividends and therefore can never be greater – however TaxWise does not check for this situation and therefore does not prevent you from making an error.
- **TSJ** – CA does not require this field, leave it blank
- **State Adjustment** - used for differences between federal and state tax
  - ***CA Note:*** If a mutual fund has at least 50% of its assets invested in tax-exempt U.S. obligations and/or in California or its municipal obligations, that percentage of interest is exempt from California tax. If less than 50% of such mutual fund is invested in these kinds of obligations, the entire income is taxable by California
  - The proportion of dividends that are tax-exempt is shown on the annual statement issued by the mutual fund, and should be entered on the Dividend Statement
  - Enter "+" or "–" in the State Adjust column, as applicable
  - Enter the amount of *adjustment* in the next column (not the whole CA amount)
- **N** - Nominee. Not commonly used by Tax-Aide
- **Capital Gain** – Enter Capital Gains distributions shown on the 1099-DIV
- **1250 Gain** – The 1250 Gain cannot exceed the Capital Gain amount; however TaxWise does not check for this situation and therefore will not prevent you from making an error
- **28% Gain** – The 28% Gain cannot exceed the Capital Gain amount; however TaxWise does not check for this situation and therefore will not prevent you from making an error
- **Federal With** – enter any federal withholding shown on form 1099-DIV
- **Exempt int. div.** – if entering amounts here, do not include the amount in the Ordinary Dividend column. This amount will appear on 1040 line 8b as "Tax Exempt Interest"
- **AMT-PAB**- Alternative Minimum Tax-Private Activity Bonds
  - Make sure that Alternative Minimum Tax is not shown on 1040 page 2, line 45, which makes the return ***out-of-scope***
- **Non-Dividend Distributions** are not taxable and should NOT be entered in TaxWise
  - Advise the client that they reduce the basis of the stock
- **Liquidation Dividends** in box 8 are a sale that is reported on Schedule D, basis to be furnished by Taxpayer

Examples of Dividend Income

	Payer	Ordinary dividends	Qualified dividends	TSJ	State Adjust +/-	State Adjust $	N	Capital gain	1250 gain	28% gain	Federal with.	Exempt int. div.	AMT PAB
1	GENERAL MOTORS	1200	1200			0		0	0	0	0	0	
2	MERRILL LYNCH	800	150			0		200	0	50	0		
3	GOVT SECURED FUND	1500	0		-	800		0	0	0	0	0	

- **Example 1**-- Ordinary and Qualified Dividends
  - General Motors Corporation common stock with ordinary dividends of $1,200, all of which are qualified
  - Dividends are taxable on both the federal and CA returns
- **Example 2** – Merrill Lynch held Stock and Mutual funds
  - Total of investments held at Merrill-Lynch
  - $800 ordinary dividends, of which $150 were qualified dividends
  - $200 in capital gains, of which $50 is a 28% gain.
- **Example 3** – State exempt interest dividends from direct Federal Government obligations
  Assume that the Government Secured Fund includes investments in both state (including CA) and federal government & agency bonds. The fund will indicate how much is exempt from state tax – the general rule is:
    - If less than 50% comes from federal and/or CA, ALL is taxed by CA

        - If 50% or more comes from federal or CA, only that specific portion of the amount is exempt from CA tax
    - Manually calculate the amount based on information from the mutual fund/broker provided by the taxpayer
    - In this example, total dividends of $1,500 were received, of which 53.3% (or $800) came from federal and/or CA investments. As this is more than 50%, this portion is exempt from CA tax

To Finish Schedule B

- You must ask, and enter the answers to, the questions at the bottom of Schedule B
- If any answer is "yes," advise client that additional reporting is required and to see a paid preparer - substantial penalties may be imposed by the IRS if required reporting is not done
- Failure to ask and enter will leave a red mark on the Tree

LINE 47 ------ FOREIGN TAXES PAID ON INTEREST OR DIVIDENDS

Go to 1116

- Foreign taxes may appear on 1099-INT, 1099-DIV, K-1, or a substitute for any of these

Foreign taxes shown on any other document, e.g. royalty statement, are not eligible for the simplified election and make the return *out-of-scope*

- Input in Simplified Limitation Election field at the top of the form
- The return is ***out-of-scope*** if the total amount EXCEEDS $300 ($600 for a joint return) and/or client wants to use full Form 1116.
    - ***Note:*** if there are foreign tax credits greater than the amount of tax liability (line 46), no carryback or carryforward of the unused foreign tax credits is allowed if the simplified credit is elected. In such cases, the client should be referred to a paid preparer if they wish to preserve the carryback/forward opportunity by filing a full Form 1116

LINE 10 ------ TAXABLE STATE INCOME TAX REFUND

- California uses a post card sized document to report prior year state income tax refunds. The amount reported is the California refund that may be taxable in the year received
- Check the "YES" box above Line 10 **ONLY IF the taxpayer(s) itemized deductions AND deducted State Income tax (not sales tax) for the year of the refund**
    - If the "NO" box is RED and unchecked, it may be necessary to check YES and then NO and again YES to remove the RED
- Add State Tax Refund Worksheet (St Tax Refund)
    - ***Note:*** You MUST have the prior year's tax return to accurately complete the worksheet
- Line 2 General Sales tax must be calculated if not shown on the prior year's return
    - Use the Sales Tax Tables at the back of this manual. To get the total Sales tax including local tax multiply the number from the table by your 2011 tax rate divided by 7.7459
- Enter the Filing Status, Number of taxpayers over 65 in prior year. TaxWise will calculate the Standard deduction on line 9
- If the prior year's return is NOT available (select SUMMARY form from tree to see prior year if this is a return with carry forward data) and it is likely that there were itemized deductions, enter the entire refund amount directly on the 1040 line for "Taxable Refunds, Credits, Offsets to State and Local Income Taxes." If this line has been linked to the State Refund Worksheet, see "Field is yellow resulting from linking in error" under Confusing Situations in TaxWise

CA Note: State taxes are not deductible on the CA return. Therefore, refunds of state taxes are not CA-taxable - TW makes the adjustment on CA Sch CA

LINE 11 ------ ALIMONY RECEIVED

- Alimony received is entered directly on Form 1040 Page 1 Line 11
- Child/Family support received is NOT taxable
- See Pub 4012 for eight tests to determine if payments are alimony
- TaxWise handles correctly:
    - Alimony is not considered earned income for EIC

- Alimony is considered compensation for IRA deduction purposes

LINE 12 ------ BUSINESS INCOME

Go to Sch C Pg 1

- AARP Foundation parameters specify that Tax-Aide will NOT do business returns
- We may complete Schedule C using C-EZ limitations, except for expenses up to $10,000, to report non-employee compensation (Self –Employment)
- Tax-Aide shall not prepare a return that includes a net loss on Sch C, depreciation deduction (includes immediate write-off elections) or office-in-the-home (Form 8829)
- More than one Schedule C per taxpayer is allowed
- There is no income limit and all income must be reported
- This carries to the California return as part of federal AGI
- **USE SCH C, not C-EZ.** If a C-EZ carries forward, transfer the information to Sch C and delete the C-EZ

Completion of Schedule C

- Check at the top to indicate whether the form is for the taxpayer or spouse
- Complete the requested information for boxes A through H
- Boxes C and D will usually be blank, they are NEVER taken from the 1099 payer information
- Box E is usually the taxpayer's home address
- Box F is "Cash" or return is ***out-of-scope***
- Box G is "Yes" or return is ***out-of-scope***
- Business Code - look up in the 1040 instruction booklet or do the following:

TAXWISE DESKTOP	TAXWISE ONLINE
• Click in the Business code box, and press the F1 key • TaxWise 1040 Help pops up. Page down to the Line B section. Click on "Click here for codes" • Choose the most applicable category and click to see the actual codes • Grab the help screen header and drag the screen to one side so that you can see the code while copying it into the Business code box on Schedule C	• Click the "Home" icon • On the Home page, click the "Business 1099R and Business Codes" link • Find the most applicable code and "Copy" it • Close the link • Paste the code into the applicable field on the Schedule C

  - If you cannot find an appropriate code use "812990"
- Input all Forms 1099-MISC or Form 1099-K on line 1by linking to forms
- Input income not reported on 1099 forms on Line 1 also – use a scratch pad
  - ***Note:*** we should always ask if there is any additional income, such as cash or amounts not shown on 1099s
- Entering gross business income:

TAXWISE DESKTOP	TAXWISE ONLINE
For gross receipts reported on a 1099-MISC: • Select 1099-MISC under C on the Tree and complete the form • If client has more than one 1099-MISC, use the Copy tab or Shift F10 to open another 1099-MISC If the client has gross receipts which are NOT reported on form 1099-MISC: • Link by right clicking from Line 1 of the Schedule C, and choose Scratch Pad. • Enter the additional gross receipts items on the Scratch Pad Do not enter on Line 6 Other Income	For gross receipts reported on a 1099-MISC: • Select 1099-MISC under C on the Tree and complete the form • If client has more than one 1099-MISC, click the "+" next to the form in the Forms Tree to open another 1099-MISC If they have gross receipts which are NOT reported on form 1099-MISC: • Link by clicking the arrowhead on the right-hand side of Line 1 of the Schedule C, and choose Scratch Pad • Enter the additional gross receipts items on the Scratch Pad Do not enter on Line 6 Other Income

  - ***Note:*** Amounts entered on Forms 1099-MISC and Scratch Pad are cumulative – do not duplicate
- Part I Income line 2, 4, and 6 must be zero, or the return is out-of-scope

- Part II Expenses must be listed by category on the individual lines provided. Optionally, all expenses can be listed in Part V
- Part III Cost of Goods Sold is out –of-scope
- Part IV Information on your vehicle is entered in this section and it carries to Line 9 under Part II
- Part V Other Expenses is used for Telephone, Internet and other expenses that are not listed on Part II and carries to line 27 of Part II
- Total business miles should be entered as business miles. For 2012, there is just one rate for the whole year

CA Note:

- There is a "red" CA Schedule C on the tree. Open it and check the box at the top of the form if all is correct. There should be no differences between federal and CA Sch Cs in the returns that we do
- ***Note:*** If there are multiple Schedule Cs, you will also need to add another **California Sch C**
  - ***TWD:*** click the tab Copy CA C Pg to bring the second and subsequent Schedule Cs into the CA return
  - ***TWO:*** Hover over first CA C Pg1 and click the "+" to add second and subsequent Schedule Cs to the CA return
- If you fail to create a CA Sch C to match each Sch C in the federal return, there will be NO diagnostic message. However, there will be an adjustment on CA Form CA Line 12 Business Income that will alert you to the problem

Notary Fees

- Notary Fees are exempt from self-employment tax
- Notary Fees income and expenses are reported on Schedule C in the normal manner
- Then:
  - **Go to Sch SE** - enter the Exempt Notary Sch C net income amount on Line 3
  - **Go to 1040 Pg 2** - check the Exempt Notary box at line 56 - Self Employment Tax

LINE 13 ------ CAPITAL GAIN OR LOSS

Go to Cap Gn Wkt (after 8949 on tree)

RULE: **All capital gain entries MUST be made on the "Capital Gn Wkt" NOT directly on Form 8949 or Schedule D except for Capital gains reported on K-1's**

- Gains or losses requiring Forms 2439, 4797, 4884, 6252, 6781, or 8824 are ***out-of-scope***
- A tax return for a dependent child with more than $1,900 of investment income is ***out-of-scope***

Capital Gains and Losses

- Proceeds and basis for sales of securities may be reported on a 1099-B or on a brokerage statement together with dividends and interest. Basis also may be obtained from the client, the original purchase confirmation, or Form 8939 for assets inherited in 2010
- The "Capital Gains Worksheet" permits entry of transactions in random order; TaxWise will separate Short-term and Long-term transactions
- **Do not leave blank lines between entries**, to add or delete a line:
  - ***TWD:*** right click and select "insert row" or "delete row"
  - ***TWO:*** Ctrl-I to insert a row or Ctrl-R to delete a row
- Only ONE "Cap Gn Wkt" is allowed per return
- If there are numerous transactions shown on a Gain/Loss statement (from a broker, program, or self prepared) that has ALL the required information, including basis information:
  - **Go to Sch D Pg 1**
  - Check the box at the top to attach a substitute list with Form 8453
  - **Go to Cap Gn Wkt** - enter summary information
    - Break down as per the original document:
      - short term and code A, B and/or C
      - long term and code A, B and/or C
    - Enter "See substitute 8949" for Description
    - Select any sale date for this entry and a date acquired of "Various" for long term
    - Select Jan 1 of the current tax year for the short term
  - Two copies of the Gain/Loss statement and 8453 shall be given to the ERO for transmittal to the IRS

- ***Note:*** If basis is not on the 1099 or broker's statement or if an adjustment to basis is needed, transactions should be input on the Cap Gn Wkt

Completing the worksheet

- **Description of Property** – the number of shares and the name or stock symbol (ticker) of the security, abbreviated as required. Number of shares – enter only whole shares. Use l or FS if the transaction is a fractional share (less than one full share)
- **1099** – Enter Code A, B, or C in the 1099 column to indicate source of basis
- **(h) Code** - If transactions were reported on a 1099B with basis reported to IRS, BUT the basis is incorrect
  - Enter "A" in the 1099 column
  - Enter a code in the **(h) Code** column – use Pub 4012 for adjustment codes
    - In scope: codes B, T, H, L, O or blank
    - ***Out-of-scope***: codes N, S, X, R, or W
  - Enter the adjustment in column (i) Adjustments to Gain or Loss
- **Date Acquired**
  - If the taxpayer has made several purchases of the same security or mutual fund over time and more than one year prior to the sale date, "VARIOUS" can be entered
  - If the taxpayer inherited the security, "INHERIT" can be entered. The Basis is the FMV at death of original owner. Estates of decedents dying in 2010 could have made an election for a carryover basis that would be shown on a Form 8939 provided by the estate**.** If so, use basis provided and original purchase date
    - ***CA Note:*** The basis for CA is FMV at date of death in all cases. An adjustment will be needed on CA Sch D if Form 8939 has a value other than FMV
  - When "INHERIT" or "VARIOUS" is entered as date acquired, TaxWise treats it as a long-term gain/loss
  - If the taxpayer has made several purchases or reinvestments during the year prior to sale, select one date to list the purchases so that the program will treat as short-term gain/loss
- **Date Sold**
  - Enter Date from 1099-B
  - Worthless securities (including securities the taxpayer abandons) are treated as though they were sold on the last day of the tax year. Enter a 12/31 sold date. This includes stocks, bonds or other securities that become completely worthless during the year and securities that are abandoned. Do not use "WORTHLSS" as this automatically makes the transaction Short Term, which may be incorrect. If securities become worthless through a corporate bankruptcy, do not use "BANKRUPT"
  - Non-Business Debts that become worthless during the year are treated as short-term capital losses. Enter "WORTHLSS" in date sold column. You can use "BANKRUPT" for some non-business bad debts. This would apply to a deposit lost to a contractor or financial institution that went bankrupt. Do not use for Stocks/Mutual Funds

Note: TaxWise will write the "dates" as VA/RI/OUS, IN/HE/RIT, BA/NK/RUPT or WO/RT/HLSS, do NOT attempt to remove the slash ("/") marks

- **Sales Price -** enter the Sales Price from the 1099-B or broker statement
- **Cost basis** – required. If Basis is not shown on the 1099-B, a Gain/Loss statement or original purchase confirmation is not available, advise the taxpayer(s) to contact the broker to get the cost basis
  - If all else fails, enter zero as the cost basis and advise the taxpayer(s) what you are doing
- If a non-statutory qualified stock option is exercised and sold on the same day, the client's W-2 will show a code V and the amount included in their line 1 income for stock purchase at option exercise. The basis of the stock for Schedule D is the selling price plus commissions
- ***Last***, return to Sch D Pg 1 and make sure the amounts are in the proper locations and add up to the same total as on the client's pages or brokers statements
- If federal tax has been withheld on the 1099-B or broker's statement, you MUST:
  - **Go to 1040 Page 2** line 62 federal income tax withheld, second field
  - Link to a Scratch pad
  - Enter the Broker name and 1099B in the description field
  - Enter the amount withheld
- TaxWise automatically completes page 2 of Schedule D using information from other forms and schedules

If there is a capital loss carryover, make sure that the Sch D Wkt 2 is printed for reference by next year's preparer

Capital Loss Carryover From Prior Year's (Schedule D)

Go to Sch D Pg 1

- You need the prior year's return or a copy of the appropriate worksheet to correctly report any loss carryforward, unless you are using "proforma"
- Capital loss carryovers are separated between long-term and short-term for federal
- Enter (verify, if proforma) the amounts from the prior year Capital Loss Carryover Schedule D WKT2 on the appropriate lines of Schedule D Part I (short term) and/or Part II (long term).
- TaxWise will create a new carryover worksheet for any balance over the maximum allowable loss of $3,000, and brings forward the correct carryforward amount to page 2 of Schedule D
- For clients with income near or close to the standard deduction, the return will show a $3,000 capital loss, but the carry-forward will not be reduced by the $3,000
- ***CA Note:*** Capital Loss carryover amounts can vary between federal and State due to different depreciation rules and TaxWise will not carryover the CA amount. While there is rarely a difference between federal and CA, **you must manually enter the combined capital loss carryforward on the CA return** even if "proforma" is used:
  - Confirm that the capital gains and losses on the prior year's returns are the same for federal and CA
    - **Go to CA Sch D** - enter the TOTAL of the federal short and long term carry-forward amounts on line 6 as a **negative amount**
    - Verify that TW form CA Sch CA shows no subtractions/additions on the Capital Gain or Loss line
  - If the prior year's CA gains/losses differ from the federal:
    - Compute the CA capital loss carryforward
    - Enter the CA capital loss carryforward on Line 6 of CA Sch D as a **negative amount**
    - Verify that CA Sch CA shows the correct adjustment on Line 13

Sale of Main Home

Note: Do NOT enter this information if (1) the taxpayer has not received a 1099-S AND (2) the gain is less than the allowable exclusion (i.e. there is no reportable gain)

- To claim the exclusion, the client must meet the ownership and use tests
  - The client owned the property for a total of 24 months of the previous 60 months
  - The owner, or one of the co-owners, used it as their **principal** residence for a total of 24 months of the previous 60 months (these do not need to be consecutive months)
    - The ownership period and the residence period can occur during two different two-year periods
- The clients cannot have sold another property in the previous two years AND used the exclusion
- See Pub 17, chapter 15 for more information
- If any portion of the client's main home was ever rented out or used for business (home office) such that depreciation would have been allowable (whether or not it was actually claimed) the return is ***out-of-scope***
- While the lower portion of Sch D Wkt2 is a Sale of Home worksheet, it is not required and does not carry to Form 8949 nor Sch D
- Determination of the basis of the home is complicated and may require a complete review of the transactions regarding home purchases and sales since the acquisition of the first home. Calculation of this basis is ***out-of-scope***
- If the taxpayer received a 1099-S, the sale should be included on Form 8949 (Schedule D) even if the sales price minus basis is less than the allowed exclusion. The Title Company should issue a 1099-S only when the seller has indicated that the gain is more than the exclusion
- When there is a gain and an exclusion is claimed
  - Enter the proceeds and basis information
  - Enter the section 121 exclusion as an adjustment in column (i) with Code **H in column (h)**
  - ***CA Note:*** CA conforms to the federal rules, including sale by a widow/widower within 2 years of the date of death
- If a loss is incurred (a nondeductible personal loss)
  - Enter the proceeds and basis information

- Enter the amount of nondeductible loss in column (i) with Code **L in column (h)**
- ***CA Note:*** If the Taxpayer had California tax withheld from the sale they will receive CA 593
  - **Go to CA 540 Line 73 - e**nter the Real Estate withholding
- ***Note 5405 recapture:*** If the home was originally purchased after 2007 and the First-Time Homebuyer Credit was claimed, see Line 59b First-Time Homebuyer Credit Repayment Form 5405 below

Sale of Home in Foreclosure or Abandonment

- Gain or Loss is reported in the manner stated above; however there may be Cancellation of Debt that may be ***out-of-scope*** unless certified in COD
- If the Form 1099-A has Box 5 checked (borrow was personally liable), the Sales Price is the lesser of Box 2 "Balance of Principal Outstanding" or the "Fair Market Value" Box 4
- If the Form 1099-A does NOT have Box 5 checked (borrower was NOT personally liable), the Sales Price is the Box 2 Amount "Balance of Principal Outstanding"
- If the Foreclosure occurs in the same year as the cancellation of debt, the lender has the option to issue only a 1099-C where the Balance of Principal Outstanding is the Amount of Debt Discharged Box 2 and the Fair Market Value is shown in Box 7
- ***Note:*** See "5405 recapture" in preceding section and Cancellation Of Debt below

LINE 14 ------ OTHER GAINS OR LOSSES – (*out-of-scope*)

LINE 15/16 -- PENSIONS AND ANNUITY INCOME & IRA DISTRIBUTIONS

Go to form 1099-R

- Form 1099-R is the usual source document for these payments
- The Railroad Retirement Board and U.S. Government Office of Personnel Management ("OPM") use variations of the form
- Specify either Taxpayer or Spouse at the top of the form
- The "Check if 1099-R is handwritten, altered, or appears not to be a true 1099-R" should be used ONLY IF the 1099-R is truly suspect
- Check the Corrected box if it is a corrected 1099-R

1099-R Payer's Name and Address

- **Payer's ID** – Enter the EIN. If the computer has encountered that EIN on another return, the name and address information will be filled in by TaxWise
  - Compare to the paper 1099-R and make corrections as needed
- TaxWise will enter the Name Code field
- If the address includes an in-care-of line, use the Payer's Care-of name line to enter the name preceded by "%" and space. It can also be used if the payer's address requires 2 lines
- Verify that the payer's name and ID match the 1099-R exactly as the e-file will reject if these do not match IRS records

1099-R Dollar Value Boxes

- The entries in this section must be an exact match of the paper 1099-R
- Box 2: This box on the paper 1099-R may be blank. Do not make an entry in box 2 if blank. The entire box 1 will be taxable unless an amount is calculated/entered in the Exclusion Worksheet or Simplified Method sections on the lower section of this screen
- Box 3: Capital Gain will be shown for a Charitable Gift Annuity (Code F). The difference between the Distribution shown in box 1 and the capital gain shown in box 3 will appear on Line 15b / 16b of the 1040
  - Go to Cap Gn Wkt
  - Describe as "FROM 1099-R"; 1099 code is "C"; col (e) sales price = Box 3; override term to be Long Term; F3 to remove the red here and on 8949
- Box 5: If the payer has calculated the taxable amount of the pension in box 2, generally the difference between boxes 1 and 2 will appear in box 5
- If Box 5 is the amount of health insurance premiums (CSA ONLY), you must manually carry the amount to the Schedule A Detail if the taxpayer is itemizing deductions

- Box 7: Take care to enter the code shown on the 1099-R. If multiple codes are shown (e.g. 4G), it may be necessary to enter only the action code "G" and not show the source code "4". The more commonly encountered codes are listed below
- To view a listing of all codes:

TAXWISE DESKTOP	TAXWISE ONLINE
• Use F1 to view a listing of all codes • If the code is not listed, it is considered *out-of-scope* for Tax-Aide	• Use F1 to reach TWO Help • Click on IRS Codes – IRS Codes – 1099-R Codes for Box 7 • If the code is not listed, it is considered *out-of-scope* for Tax-Aide

Box 7 code	Description
1	Early distribution, no known exception. 10% federal penalty and 2.5% CA penalty applies, unless exception applies that goes on IRS form 5329 and CA 3805P
2 3, 4	Early distribution, disability or death. Generally no penalties apply
7	Normal distribution – the most commonly encountered code, no penalties
F	Charitable Gift annuity
G	Direct rollover. Not taxable, no penalties apply. Not necessary to complete rollover worksheet portion of the TaxWise 1099-R
J	Early distribution from a Roth IRA, no known exception. Penalties may apply. Requires Form 8606 which is ***out-of-scope***
P	Excess contributions plus earnings/excess deferrals taxable in prior year. This generally requires an amendment of the taxpayer(s) prior year return. Excess contributions are ***out-of-scope***
Q	Qualified distribution from a Roth IRA. Comparable to 7. No tax or penalty involved
T	Early Roth IRA distribution, exception applies. Generally no penalty, no tax- 8606 required, which is out of scope

- Conversion from a Traditional IRA to a Roth IRA requires completion of Form 8606 – out of scope
- "Check if disability and taxpayer is disabled" - entry below Box 7 on the TaxWise screen MUST be checked if the pension or annuity is being paid as the **result of disability and the client is under normal retirement age for that company.** The pension amount will show up on 1040 line 7 if under normal retirement age and the box is checked
- "Check to Force Form 5329" –If there is an early distribution penalty because the taxpayer is less than 59-1/2 years old, the penalty will show in the Other Taxes section of the 1040, Line 58 and no 5329 is required. However if there is an exception to the penalty, check the box to force a 5329. On the 5329, the amount subject to penalty is shown on line 1
  - To view the exception to penalty codes:

TAXWISE DESKTOP	TAXWISE ONLINE
• Place your cursor in the box on Line 2 and F1 to see the exceptions to the penalty	• Use F1 to reach TWO Help • Click on IRS Codes – IRS Codes – Exception codes for Add'l Tax on Early Distribution

  - Enter the appropriate code and the amount NOT subject to additional penalty
- If the distribution is from a Roth IRA and Box 7 is **code** " **T** "**,** enter the first year of Roth contribution in Box 11 of Form 1099-R (if that is more than 5 years prior to the year of distribution, TaxWise removes the penalty)
- Box 9b (this information may alternatively appear in box 5 although you cannot tell if it was "employee contribution" or "health insurance premiums" unless it states so on the 1099-R):
  - If an amount appears in this box and a taxable amount is not shown in Box 2, the taxable amount box "2" remains blank and red until you complete the 1099-R Simplified Method (lowest part of form) section of this form, described below (this will also "get the red out")
- If this is a Total Distribution, the employee contribution may appear in box 5
  - If Box 5 is greater than Box 1, there may be a loss on the annuity - see Unrecoverable Pension or Annuity Investment below

- ***Note:*** Survivor benefits attributable to service by a public safety officer who is killed in the line of duty before 1/1/1997 are excludible from federal income
  - ***CA Note:*** CA does not conform to this provision and all benefits received are taxable
    - Enter an adjustment on CA Sch CA line 21f describe as 1099-R

1099-R-State Section

- If provided on the 1099-R, enter the State ID without dashes or spaces (TaxWise truncates the carryforward for the following year after 9 numbers). The State ID number is NOT the same as the federal ID number. **If the State ID is blank on the paper 1099-R, enter six nines (999999). This is not required if there is no State withholding**
- The state distribution is a calculated field. If there is an exclusion due to a rollover or simplified method, the state distribution will NOT match the paper form and this is allowable
- The Payer may or may not complete the state section. CA follows the federal rules for taxability for all CA residents. If the state distribution is blank, it is presumed to be the same as the federal distribution.
- ONLY IF the state amount on the 1099-R is different than the federal amount:
  - Override Box 14 and enter CA distribution amount
  - TaxWise does not take the difference to CA Sch CA – a manual adjustment is needed
    - Go to CA Sch CA and enter the adjustment on line 15 or 16, as appropriate

1099-R-Exclusion Worksheet

- Before starting, and when finished, check line 15 or line 16 on the 1040 to make sure entries produce the correct result
- A "transfer" is a DIRECT transfer of funds or securities from one qualified account to another, e.g. no money passes through the hands of the taxpayer
  - The taxpayer can do this as often as they wish, there is no limit
  - Box 7 of the 1099-R should be coded "G" and the amount will be shown as non-taxable on line 15b or 16b
  - No further entry is needed
- A "rollover" is a distribution from a qualified account followed by a recontribution of some or all of the distribution to another qualified account WITHIN 60 DAYS
  - A taxpayer is limited to one rollover in any 12-month period (regardless of how many accounts there are)
  - Box 7 indicates a normal or early distribution, but the client reinvests it in an IRA within 60 days. The amount rolled over will be non-taxable
- Sometimes a distribution includes both a regular distribution (generally taxable) and a rollover (generally non-taxable)
- The exclusion worksheet is used to input the amount that will not be taxable or transfer the distribution information to form 8606 as necessary
- **Line 1**-Enter the full amount of the rollover (not the amount of distribution or ROTH conversion)
  - **Go to 1040 Pg1 Line 15b or 16b** - check the "Check if rollover" box
  - For an IRA rollover, click on Line 15b, press F9 to link to the "New form 1040 IRA Rollover Explanation" worksheet, and explain the rollover (e.g. IRA rolled from "bank ABC" to "savings & loan DEF"). Use only one line
- **Line 2**-[Expired 12/31/2011
- **Line 3**-amount rolled over to an HSA ***out-of-scope***
- **Line 4**-Retired Public Safety Officers qualified health or LTC plan
  - Confirm that the retiree was a Public Safety Officer before retirement
  - Enter qualified amount (up to $3,000) for health and/or LTC insurance paid from the retirement plan
  - Amount may be in Box 5 of the 1099-R or in a letter from the plan. Do not include on Schedule A Medical deductions. If the amount exceeds $3,000, the balance may be input in Sch A if itemizing deductions
- **Line 5**- If the taxable amount is determined and is shown as zero on Box 2 of the 1099-R, enter the entire amount of the distribution here. Do not enter an amount in any other circumstances as that would be ***out-of-scope***

- The box: "…ever made nondeductible IRA contributions" would add an incomplete 8606 (red) and would be ***out-of-scope***
- The box: "…conversion from a traditional IRA to a Roth" would add an incomplete 8606 Part II (red)
  - If part or all of the distribution was converted to a ROTH, the return is ***out-of-scope***

1099-R Simplified Method (lowest part of form)

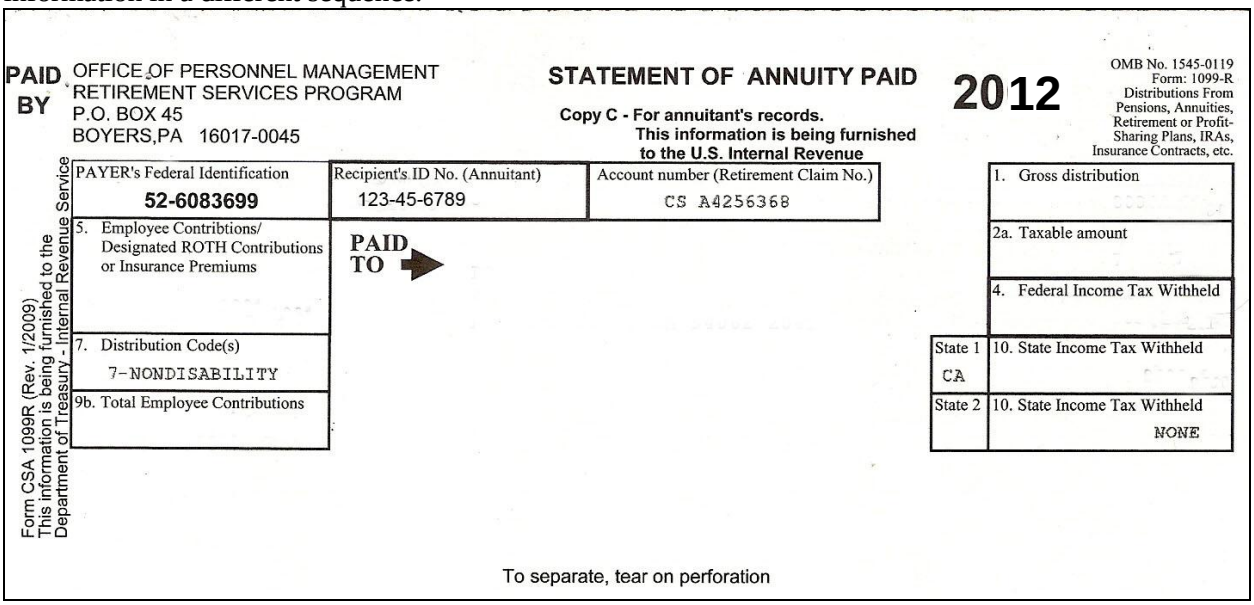
- If the employee made after-tax contributions toward the pension, a portion of the annuity payment is not taxable
- ***Note:*** If the starting date of the payments was prior to July 2, 1986 and there is no entry in Box 2, the entire amount of the taxpayer's contribution probably would have been recovered under the "Three Year Rule" and you should clear the red from box 2 with F3. The entire amount will show as taxable on the 1040
- If the annuity start date is after July 1, 1986, box 2 is blank and there is an Total Employee Contribution amount in box 9b:
  - Check the Taxable Amount Not Determined box
  - Enter the total amount of employee contributions from 1099-R, box 9b on Line 1
  - Check the appropriate box for the primary annuitant's age when the annuity payment started even if the employee subsequently died (not his or her current age).
    - If the distribution code is 4 (death) and the deceased employee had not yet retired, this will be the day after the date of death of the employee.
  - Depending on the annuity start date, you MAY have to check one of the two boxes relating to annuity starting date.
    - ***Note:*** that the second box is used ONLY if this is a joint or survivor annuity, in which case the combined ages at the time the annuity started must also be checked
    - ***Note:*** the joint or single determination is made when the annuity starts; subsequent changes are disregarded, e.g. death or remarriage
    - Errors in checking these boxes WILL result in an incorrect tax-exempt amount
  - If this is a Joint and survivor annuity, check the combined ages of both annuitants at the annuity starting date. This is true even if an annuitant dies after the start of the annuity payments
  - Enter the number of months for which payments were received during the tax year, which will usually be 12 except for the year in which payments started or ended
  - Enter the amount recovered tax free in prior years in the next box; you need to either (1) look at last year's tax return to determine this amount or (2) calculate the amount using the monthly amount computed by TaxWise times the number of months prior to the current tax year
    - This amount carries forward from prior year
    - ***Note:*** This line must be completed if the client has been receiving their pension for more than 17 years as they may have used up all their basis
    - ***Note:*** There is a small window for those whose benefits began before 1987: the computed annual exclusion can be taken as long as benefits are received, regardless of basis. This would include the survivor's benefits if the annuitant originally chose a joint and survivor annuity. In this rare case, do not complete Line 5 of the simplified worksheet
  - The non-taxable amount is calculated by TaxWise and taxable amount is reflected on Form 1040 line 16b. The Taxable Amount box 2 on the TaxWise 1099-R will remain blank
- ***Note:*** Print the Simplified method and attach to client's copy of their return for future reference
  - ***TWO:*** Use PrtScn to capture the image and print it
- ***CA Note:*** If the annuity start date was after 7/1/1986 and before 1/1/1987, the 3-year rule could have been use for CA - even though it was not allowed for federal
  - If so, make an adjustment on CA Sch CA Line 16 to increase the taxable retirement income for an amount equal to the federal simplified method basis recovered (Form 1099-R simplified worksheet Line 6)

2010 IRA conversions from Traditional to ROTH taxable in 2011 and 2012

- IRA conversions, including 2010 conversions with deferred reporting to 2011 and 2012 are ***out-of-scope***. Clients with deferred amounts to report in 2012 should be referred to a paid preparer.

OPM (Office of Personnel Management) 1099-R

The Office of Personnel Management makes annuity payments using the CSA 1099-R, which places information in a different sequence.



PAID BY
OFFICE OF PERSONNEL MANAGEMENT
RETIREMENT SERVICES PROGRAM
P.O. BOX 45
BOYERS,PA 16017-0045

STATEMENT OF ANNUITY PAID **2012**

Copy C - For annuitant's records.
This information is being furnished to the U.S. Internal Revenue

OMB No. 1545-0119
Form: 1099-R
Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

Form CSA 1099R (Rev. 1/2009)
This information is being furnished to the Department of Treasury - Internal Revenue Service

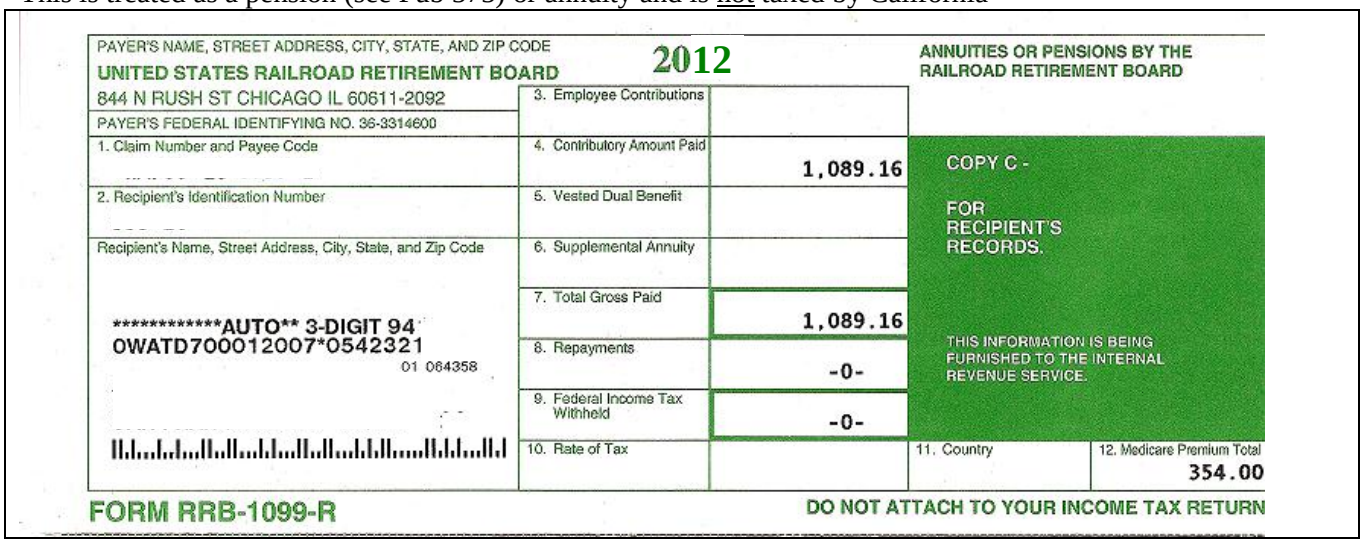
PAYER's Federal Identification	Recipient's ID No. (Annuitant)	Account number (Retirement Claim No.)	1. Gross distribution
52-6083699	123-45-6789	CS A4256368	
5. Employee Contributions/ Designated ROTH Contributions or Insurance Premiums	PAID TO		2a. Taxable amount
			4. Federal Income Tax Withheld
7. Distribution Code(s) 7-NONDISABILITY			State 1 CA: 10. State Income Tax Withheld
9b. Total Employee Contributions			State 2: 10. State Income Tax Withheld NONE

To separate, tear on perforation

- See IRS Publication 721 for additional information.
- Box 5 on this form is always health insurance premiums that are deductible as medical on Schedule A. The amount includes only premiums for FEHB and Medicare B and or D. If the retiree is having Dental, Vision or LTC insurance premiums deducted they will not be included in Box 5. The only way to see these other premiums is to see the taxpayers Form RI 38-38 Notice of annuity adjustment. Codes are shown on the back of the form. 42 is Federal Dental Insurance, 43 is Federal Vision insurance and 45 is a catchall that includes LTC

RRB-1099-R – green form/"non-Social Security and Tier 2"

This is treated as a pension (see Pub 575) or annuity and is <u>not</u> taxed by California



PAYER'S NAME, STREET ADDRESS, CITY, STATE, AND ZIP CODE
UNITED STATES RAILROAD RETIREMENT BOARD
844 N RUSH ST CHICAGO IL 60611-2092
PAYER'S FEDERAL IDENTIFYING NO. 36-3314600

2012

ANNUITIES OR PENSIONS BY THE RAILROAD RETIREMENT BOARD

1. Claim Number and Payee Code	3. Employee Contributions	
	4. Contributory Amount Paid	1,089.16
2. Recipient's Identification Number	5. Vested Dual Benefit	
Recipient's Name, Street Address, City, State, and Zip Code	6. Supplemental Annuity	
**********AUTO** 3-DIGIT 94 OWATD700012007*0542321 01 064358	7. Total Gross Paid	1,089.16
	8. Repayments	-0-
	9. Federal Income Tax Withheld	-0-
	10. Rate of Tax	
	11. Country	12. Medicare Premium Total 354.00

COPY C - FOR RECIPIENT'S RECORDS.

THIS INFORMATION IS BEING FURNISHED TO THE INTERNAL REVENUE SERVICE.

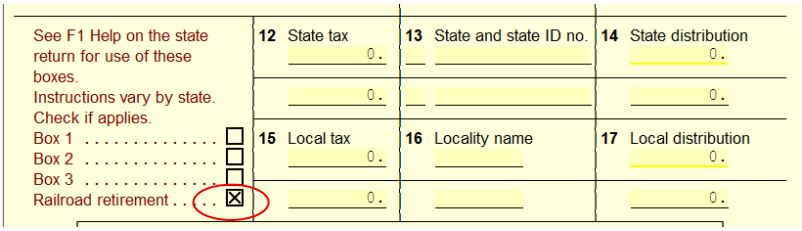
FORM RRB-1099-R

DO NOT ATTACH TO YOUR INCOME TAX RETURN

Amounts on the RRB-1099-R	Enter in TaxWise on a 1099-R
EIN = 36-3314600	Payer's ID
Box 3 Employee Contributions	Box 9B and Simplified General Rule box 1
Box 4 Contributory Amount Paid	Not entered
Box 7 Total Gross Paid (sum of boxes 4, 5, & 6)	Box 1
	Enter "7" in Box 7

Amounts on the RRB-1099-R	Enter in TaxWise on a 1099-R
Box 8 (repayment of benefits included in a prior year)	If the amount is $3,000 or less, it can be claimed as a miscellaneous deduction subject to the 2% of AGI limitation on Schedule A. If it is more than $3,000, it can be claimed on Schedule A as Other Miscellaneous Deduction not subject to the 2% of AGI limitation.
Box 9 Federal Income Tax Withheld	Box 4
Box 12 Medicare Premium Total	Schedule A Detail or wkt 1
	Check "Railroad Retirement" box on TaxWise 1099-R- see next

CA Note: In TaxWise 1099-R screen, to the left of boxes 12 and 17 are a series of boxes. You MUST check Railroad Retirement as this exempts the payment from CA taxes.



Foreign Government Pensions

- Foreign government pensions are ***out-of-scope*** except for Canada and German Social Security
- Distributions from the Canada Pension Plan (CPP), Quebec Pension Plan (QPP), Old Age Security (OAS) and Germany Social Security, received by US residents, should be treated as Social Security Benefits and reported on Wkt1
- ***CA Note:*** Foreign pensions **<u>are taxable</u>** on the California return
  - TW does **<u>not</u>** make the necessary adjustment
    - **Go to CA Sch CA Line 21f**
    - Enter a description and the amount as an Addition
- Canadian RRSP (similar to an IRA) are ***out-of-scope***
  - ***CA Note:*** CA treats the account as a taxable investment account. Income earned in a Canadian RRSP and capital gains or losses are currently includible in income - ***out-of-scope***
- IRS publishes "Yearly Average Currency Exchange Rates": http://www.irs.gov/businesses/small/international/article/0,,id=206089,00.html
- Other currency exchange rate sources are
  - Wall Street Journal
  - www.Oanda.com
  - www.XE.com
  - www.X-rates.com

<u>LINE 17 ------ RENTAL REAL ESTATE, ROYALTIES, TRUSTS - (*limited*)</u>

- If there is a 1099-Misc with amounts in Box 1 or 2, and no associated expenses, then the return is in-scope
- **Go to Sch E**
  - Complete line A and then go to line 3b and link to the 1099-MISC
  - Line 1 requires an entry for "Type" -use 5 for Land, and 6 for Royalties
  - Fill in the 1099-MISC. Info will be brought forward to the Sch E and 1040 Line 17

<u>LINE 18 ------ FARM INCOME - (*out-of-scope*)</u>

<u>LINE 19 ------ UNEMPLOYMENT COMPENSATION</u>

- **Go to** Form 1099-G
- Unemployment Compensation is fully taxable for federal
- Check the appropriate box at the top to indicate if payment was made to the taxpayer or spouse
- Change the default Payer Name if required
- Do not enter "CA" on Line 6 (state tax withheld) unless there was CA tax withheld
- The California form has two parts: Unemployment and Family Leave. Both are reported on Line 19 as unemployment. If you have both, open a new 1099-G to enter the Family Leave

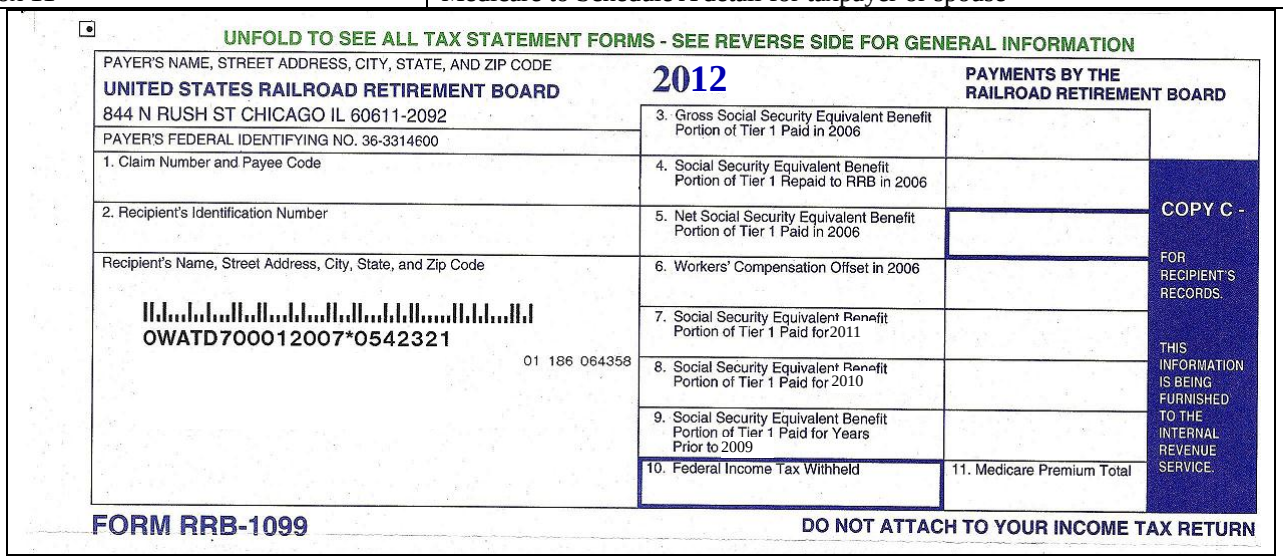
- Amounts repaid for the current year will reduce the taxable income for the current year. Any amounts repaid for a prior year must be deducted on Schedule A, Miscellaneous deductions (subject to 2% reduction if $3,000 or less) and cannot offset the amount received for the current year
- ***CA Note:*** Unemployment or family leave payments are NOT taxable by CA
  - TaxWise makes the adjustment

LINE 20 ------ SOCIAL SECURITY AND RAILROAD RETIREMENT BENEFITS

- Up to 85% of the social security payments may be taxed. The general guideline is that if other income plus tax-exempt income plus one-half of social security is less than $25,000, none of the social security is subject to tax. See Foreign Government Pensions above for treatment of Canadian or German Social Security
- Tax implications of social security payments:
  - Benefits received by children of a deceased taxpayer are NOT taxable on a parent's return.
  - Disability Income (SSDI/SSI) is NOT taxable and the taxpayer should not have received a SSA-1099 for such payments – if they have a form, it is taxable income (subject to other income)
- Complete the Social Security Worksheet (1040 WKT1):
  - Use the section titled "Social Security and Railroad Tier 1 Benefits"
  - Both Taxpayer and Spouse are reported on the same worksheet
  - Enter amount from SSA-1099, Box 5 as "Social Security received this year"
    - If the amount is negative, the return is ***out-of-scope***
    - If there is more than one SSA-1099, combine amounts on all forms to see if the amount is positive or negative. If positive, use the net positive number
  - Enter amount from RRB-1099 (blue form) Box 5 as "Railroad tier 1 received this year"
  - Enter the amount of Medicare B, C and D premiums in the box labeled "Medicare to Schedule A", do this as a matter of routine; that way it won't be forgotten if the taxpayer itemizes deductions
  - Enter any federal tax withheld in the appropriate boxes
  - The remainder of the worksheet will calculate automatically, and place the taxable amount, if any, on the appropriate line of Form 1040
- Social security death benefits (usually $255) received by spouse or children of a deceased taxpayer are NOT taxable
- ***CA Note:*** Social Security or Railroad tier 1 (also tier 2) is NOT taxed by California – verify adjustment on CA Sch CA

RRB-1099 – blue form/"Tier 1 social security equivalent"

Amounts on the RRB-1099	Enter in TaxWise on the 1040 WKT1
Box 5	Railroad Retirement (not social security) for taxpayer or spouse
Box 10	Federal tax withheld for taxpayer or spouse
Box 11	Medicare to Schedule A detail for taxpayer or spouse


UNFOLD TO SEE ALL TAX STATEMENT FORMS - SEE REVERSE SIDE FOR GENERAL INFORMATION

PAYER'S NAME, STREET ADDRESS, CITY, STATE, AND ZIP CODE
UNITED STATES RAILROAD RETIREMENT BOARD
844 N RUSH ST CHICAGO IL 60611-2092
PAYER'S FEDERAL IDENTIFYING NO. 36-3314600

1. Claim Number and Payee Code
2. Recipient's Identification Number
Recipient's Name, Street Address, City, State, and Zip Code
0WATD700012007*0542321
01 186 064358

2012

PAYMENTS BY THE RAILROAD RETIREMENT BOARD

3. Gross Social Security Equivalent Benefit Portion of Tier 1 Paid in 2006
4. Social Security Equivalent Benefit Portion of Tier 1 Repaid to RRB in 2006
5. Net Social Security Equivalent Benefit Portion of Tier 1 Paid in 2006
6. Workers' Compensation Offset in 2006
7. Social Security Equivalent Benefit Portion of Tier 1 Paid for 2011
8. Social Security Equivalent Benefit Portion of Tier 1 Paid for 2010
9. Social Security Equivalent Benefit Portion of Tier 1 Paid for Years Prior to 2009
10. Federal Income Tax Withheld
11. Medicare Premium Total

COPY C - FOR RECIPIENT'S RECORDS. THIS INFORMATION IS BEING FURNISHED TO THE INTERNAL REVENUE SERVICE.

FORM RRB-1099 DO NOT ATTACH TO YOUR INCOME TAX RETURN

- ***Note:*** This is equivalent to Social Security and it is **not** taxed by California; TaxWise makes the adjustment

Lump Sum Payments of Social Security

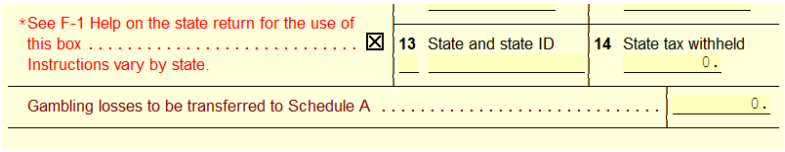
- Enter total Social Security received in the normal manner
- If Social Security or Railroad Retirement Tier 1 includes a lump sum payment for a prior year AND the prior year tax return is available, proceed as follows:
  - Go to "Lump Sum payments" at the bottom of 1040 Wkt1
  - Gross amount Received for 2012 is 2012 benefits "only" and does not include prior year payments
  - Amounts Taxable from Previous years- F9/Link for worksheet. You will need the prior year return to complete this form
  - If there is another Previous year, copy or add a new Lump Sum Worksheet (a separate worksheet is required for each prior year)

LINE 21 ------ OTHER INCOME

- Use line 21 to report any income not reported elsewhere in the return, such as gambling winnings, prizes, awards, jury duty pay, Alaska Permanent Fund dividends, recovery of itemized deduction, and hobby income
- Always enter Other Income items reported on an IRS form such as a W-2G or 1099-MISC before entering income not reported on an IRS form
- ALWAYS START WITH GAMBLING WINNINGS if there are any
- See "Entering Multiple Types of Other Income" below if there is more than one type of Other Income reported on Line 21

Gambling Winnings-Form W-2G

- Go to W-2G
  - Check the box for Taxpayer or Spouse at the top of the form
  - The Payer's federal ID number (EIN) is required
  - TaxWise will calculate the Name Code
  - Verify that the payer's name and ID match the W-2G exactly
  - Complete the money fields as applicable, making an exact match of the paper W-2G
- Input each W-2G
- ***CA Note:*** California Lottery winnings are not taxed by CA
  - The box on the lower left-hand side of this form should be checked **ONLY when CA Lottery winnings** are being reported


*See F-1 Help on the state return for the use of this box
Instructions vary by state.
13 State and state ID
14 State tax withheld
0.
Gambling losses to be transferred to Schedule A
0.

  - This check mark results in the proper adjustment on TaxWise form CA Sch CA for the winnings and associated losses
- If the taxpayer has winnings not reported on a W-2G, enter the sum these of gambling winnings on "Line 21: Other Income" statement (not a scratch pad)
- Gambling losses to be transferred to Schedule A:
  - You can input total losses on one W-2G (they do not have to match payer-by-payer), but put CA Lottery losses on the CA Lottery winnings W-2G
  - Gambling losses can be deducted on Schedule A up to the amount of the reported winnings
  - TaxWise will limit aggregate losses to the maximum of reported winnings
- ***Note:*** If you entered gambling winnings and did not use Form W-2G, you may need to manually apply the limits on losses:
  - For federal, enter all gambling losses, up to all winnings on Sch A, Line 28 - link to "Line 28: Deductions Not Subject to 2% of AGI" worksheet
  - For CA, enter an adjustment to remove California Lottery losses. Go to CA Sch A Line 28 and link to a scratch pad. Enter the unallowable CA lottery losses as a negative amount. Type a description on L 28
- If the Taxpayer takes the standard deduction, the losses cannot be deducted
- If Form 1040, page 1, the Other Income "Type' box is red – resolve this by entering "Gambling winnings" or "CA Lottery" as appropriate

1099-MISC Income

- Form 1099-MISC can represent several different types of income
- Look at the 1099-MISC carefully to determine the type of income
  - Boxes 5, 6, 8, 10, 13, and 15b are ***out of scope***
- 1099-MISC income for boxes other than 1, 2, and 7 is reported by selecting the 1099-MISC attached to 1040 pg 1 (if available on the tree), or linking from the Line 21 amount field to "NEW Miscellaneous Income form 1099-MISC".
- **Do not use the 1099-MISC under schedule C except for amounts reported in Box 7**
- Copy the information exactly from the paper form to TaxWise
- Be careful to open the correct parent form; use the chart below as a guide

1099-MISC Box	Type of Income	Open this parent form	Link to 1099MISC from this line
1	**Rental income with no expenses**	Schedule E	3b
2	**Royalty income with no expenses**	Schedule E	3b
3	**Court & arbitration awards & damages**	***Out-of-scope***	
3	**Disability Income**	***Out-of-scope***	
3	**Hobby Income**	1040	21 – amount
3	**Jury Duty pay**	1040	21 – amount
3	**Prizes**	1040	21 – amount
3	**Indian Tribal Income distribution**	1040	21 – amount
7	**Non-Employee Compensation** (self-employment income). Includes CA home care when reported in box 7 on a 1099-MISC	Schedule C	1b
7	**Notary Fees** – see instruction under 1040 Line 12	Schedule C	1b

- **Indian Tribal Income** reported on 1099-MISC, Box 3, represents a portion of the profit from a casino or other business on tribal lands
  - Always taxable for federal, not subject to Self-Employment tax
  - ***CA Note:*** Indian Tribal Income is exempt for CA **ONLY IF** the taxpayer lives on tribal land
    - An adjustment on CA Sch CA, Line 21(f) is required if exempt from CA taxes

Other Income Without A Supporting IRS Form

- Link from the Line 21 Amount field (NOT the right hand column) to the "NEW Form 1040 Line 21: Other Income" statement (NOT a scratch pad) and enter any income for which TaxWise does not have a supporting form
- Use Form 1040 Line 21 Other Income if there are multiple Line 21 items
- Some examples of income generally not reported on an IRS form are:
  - Jury Duty Pay
  - Election Officer Pay
  - Executor and Conservator Fees
  - Recovery of itemized deduction

Employee Unreported Tip Income – Form 4137

Tip income is reported on Line 7 of Form 1040 as part of wages. See instruction for Line 7 above. This should not be reported as Other Income

Payments From Qualified Education Program-Form 1099-Q

- This form reports gross distributions from a qualified tuition program (529 plan) or a Coverdell ESA
  - Coverdell ESA plans are ***out-of-scope***
- If these distributions were used for tuition and fees, they are not taxable
- Link from 1040 Wkt 2 Education Savings Accounts, to the ESA Worksheet and enter information on the lower half "Distributions from Qualified Education Programs"

Distributions From LTC Insurance Plans-Form 1099-LTC - out-of-scope

HSA Distribution

Note: HSA's are ***out-of-scope*** unless the Counselor and Reviewer are certified in the area

- 1099-SA Information from this form is entered on Form 8889 Part III
- If a distribution is received, a form 8889 and Form 1040 must be filed even if there is no other income
- If all of the distribution was used for qualified medical expense, there is no taxable amount
- If used for other than qualified medical expense, the taxable payment transfers to Form 1040 Line 21. Enter the Type as 1099-HSA
- There is a 20% penalty for non-qualified distributions that transfers to line 60 other taxes
- ***CA Note:*** **CA does not recognize HSAs**
  - TaxWise removes any income shown on federal Line 21 flowing from Form 8889
  - TaxWise transfers medical expenses (paid by the HSA and not deducted on federal Schedule A as shown on Form 8889, Line 15) to CA Sch A
  - If there are HSA distributions in excess of qualified medical expenses, TaxWise includes the distribution in income for federal. This is not taxable for CA
    - TaxWise does **not** make the CA adjustment
    - **Go to CA Sch CA** and enter a subtraction on Line 21f for the HSA distribution include in federal Line 21

Cancellation Of Debt

Note: COD is ***out-of-scope*** unless the Counselor and Reviewer are certified in the area

- Cancellation of credit cards, car loans, principle residence, second mortgages, lines of credit debts result in taxable income unless an exception applies
- Enter the Cancelled Debt income on Line 21 or exclude debt on Form 982
- ***CA Note:*** The amount of qualified principal residence indebtedness discharged that is excludible for federal purposes (up to $2,000,000) may be more than that allowed for CA purposes
  - Loan amount taken into consideration for CA is limited to $800,000 ($400,000 for married/RDP filing separate)
  - Debt relief for CA is limited to $500,000 ($250,000 for married/RDP filing separate)
  - Only recourse debt is considered

CA Example - qualified recourse debt before foreclosure: $890,000 - basis in home before foreclosure: $900,000 - FMV of home at time of foreclosure: $650,000		
Compute Nonqualified Debt:		
1	Enter the total amount of the debt immediately prior to the foreclosure	$890,000
2	Subtract the lesser of qualified principal residence indebtedness; or $800,000 ($400,000 for married/RDP filing separate)	($800,000)
3	Nonqualified debt	$ 90,000
Compute COD Income: (Note: For non-recourse loans, skip this step. There is no COD income.)		
4	Enter the total amount of the debt immediately prior to the foreclosure	$890,000
5	Enter the fair market value of the property on the date of foreclosure	($650,000)
6	Subtract line 5 from line 4 (if less than zero, enter zero) – tentative COD Income	$240,000
7	Subtract the nonqualified debt from line 3	($90,000)
8	This amount is the excludable COD income for California - for tax years 2009 through 2012 limited to $500,000 ($250,000 for married/RDP filing separate)	$150,000
9	Taxable COD income for California – lesser of line 3 or line 6	$90,000

CA Example - qualified recourse debt before foreclosure: $890,000 - basis in home before foreclosure: $900,000 - FMV of home at time of foreclosure: $650,000		
Compute Gain or Loss:		
10	Enter the fair market value of the property foreclosed (Note: If the amount of debt is less than the fair market value, refer to federal Pub 4681, *Canceled Debts, Foreclosures, Repossessions, and Abandonments)*	$650,000
11	Enter the adjusted basis in the property (subtracting the excludable COD income $900,000 minus 150,000)	($750,000)
12	Subtract line 11 from line 10. This is the gain/loss (For losses, see Loss on Sale)	($100,000)

- Enter the applicable adjustment in CA Sch CA Line 21f

Entering Multiple Types Of Other Income (The TYPE Field)

If the field on the 1040 is linked to a 1099-MISC by default, you must right click or F9, to link rather than using the link symbol

- If all entries are from supporting forms, the TYPE field will be RED and you must enter a description of the amount, e.g. "GAMBLING WINNINGS".
- If you have amounts carrying from W-2G and/or 1099-MISC forms, AND you have income to enter for which there is no supporting form, do the following:
  - Complete the supporting forms (W-2G's and 1099Misc's) first
  - In the amount field on line 21, link to "NEW Form 1040 Line 21 Other Income"
  - The amount total from supporting forms is transferred automatically. You can enter the description (if all the same) or you can break it down on as many lines as needed
  - Enter the items for which there are no supporting forms
- On 1040 Pg 1 Line 21, the TYPE field will be yellow and the amount field (showing totals from forms listed in the red instructions below the TYPE line) will be different from the right hand column. This is OK. The Printed form will show "SEE STMT" and a statement will be attached to the return.
- If the TYPE field is yellow or changes from Red to Yellow when you click it, you must select "NEW Form 1040 Line 21 Other Income" (NOT a scratch pad) and enter the income description on this form
- Be sure to verify that the total shown on Line 21 is correct and all other income amounts have been reported
- If the total is incorrect, you may need to check the box in the red instructions under the Type field and manually enter the amounts from the forms on the "Form 1040 Line 21 Other Income" form

LINE 22 ------ TAXWISE EARNED INCOME

- TaxWise adds the amounts from Line 7 (W-2) and Line 12 (Sch C)
- If the Taxpayer can be claimed as the dependent of another, the standard deduction of $900 can be increased by earned income up to the regular standard deduction amount
- If there is an amount in Line 21 and that amount is "earned" income, you will need to add a scratch pad entry to increase the amount of Earned Income for correct calculation of the standard deduction
- ***Note:*** Earned income for EIC is limited to Line 7 (wages, etc.) and self-employment income (Sch C)
- ***Note:*** IRA deductions are limited to "compensation" – see below

ADJUSTMENTS TO INCOME

LINE 23 ------ EDUCATOR EXPENSE [EXPIRED 12/31/2011]

LINE 24 ------ CERTAIN BUSINESS EXPENSES – (*out-of-scope*)

Note: Certain business expenses of reservists, qualified performing artists, and fee-based government officials (Form 2106 or 2106-EZ) are ***out-of-scope***

LINE 25 ------ HEALTH SAVINGS ACCOUNT

Note: HSA's are ***out-of-scope*** unless the Counselor and Reviewer are certified in the area

- Enter amount contributed to HSA on Form 8889
- Amounts contributed by employer are shown as code W on line 12 and are transferred to Form 8889 Part1 (these are not deductible)
- The client should provide Form 5498-SA that shows the amount of contributions during the year
- Contributions may be made up to April 15, 2013 if they are designated for 2012
- ***CA Note:*** California does not recognize HSAs (see HSA Distribution above)
  - TW properly subtracts the HSA deduction on CA Sch CA

LINE 26 ------ MOVING EXPENSES – (*out-of-scope*)

Note: Moving expenses (Form 3903) are ***out-of-scope***

LINE 27 ------ DEDUCTIBLE PART OF SELF EMPLOYMENT TAX

- This amount is transferred from Schedule SE by TaxWise and represents the "employer's" part of the tax (7.65% of net business income)
- ***CA Note:*** CA allows a deduction for one-half of the self-employment tax (effectively 6.65% of net business income). TaxWise makes the adjustment in CA Sch CA

LINE 28 ------ SELF EMPLOYED SEP, SIMPLE PLANS – (*out-of-scope*)

LINE 29 ------ SELF-EMPLOYED HEALTH INSURANCE - (*out-of-scope*)

LINE 30 ------ PENALTY ON EARLY WITHDRAWAL OF SAVINGS

- Enter on the "Interest Statement" under "Early Penalty"
- TaxWise transfers it to line 30

LINE 31 ------ ALIMONY PAID

- A deduction may apply if the taxpayer(s) made payments under a divorce or separation decree – refer to Pub 17
- Alimony does NOT include child or family support, which is NOT deductible
- Enter both the recipient's Social Security number and the amount
- If alimony was paid to more than one individual, highlight the SSN field and F9 to bring up an Alimony Paid worksheet. Enter each recipients SSN(s) and amount(s) paid, these will be summed and brought forward to Form 1040

LINE 32 ------ IRA DEDUCTION

- The taxpayer, and spouse if filing jointly, may each make contributions, subject to age and total compensation income limits (listed on the TaxWise IRA Wkt)
- If covered by a retirement plan, they may be able to take an IRA deduction subject to AGI limits
- Go to "IRA Wkt - Traditional, Roth IRAs, ESAs Worksheet", enter contributions to a Traditional IRA on line 10 and to a Roth IRA on line 20
  - TaxWise will check the contributions against the current year's limits
- Non-deductible contributions require completion of form 8606, which is ***out-of-scope***
- Traditional or Roth IRA contributions in excess of the amount of compensation income are subject to an annual penalty as long as the excess continues, which is ***out-of-scope***

LINE 33 ------ STUDENT LOAN INTEREST DEDUCTION

Go to 1040 Wkt2 Student Loan, Education Worksheet

- Enter interest paid on line 1of the worksheet. TaxWise calculates the allowable adjustment amount.

LINE 34 ------ TUITION AND FEES DEDUCTION [Expired 12/31/2011]

LINE 35 ------ DOMESTIC PRODUCTION ACTIVITIES – (*out-of-scope*)

LINE 35 ------ OTHER

Jury Duty pay given to employer is input on this line, everything else on this line is ***out-of-scope***

TAXABLE INCOME CALCULATION

LINE 40 ------ DEDUCTIONS

Standard Deduction

- The Standard Deduction is the default
- If there is any doubt whether to itemize, complete Schedule A. This is particularly important for CA because the standard deduction is less than for federal

Schedule A

- TaxWise will make the correct calculations for both federal and state and select the better of Standard Deduction or Itemized Deductions
- Schedules A and A Detail have boxes for TSJ (Taxpayer, Spouse, and Joint) and fields for Taxpayer and Spouse mileage. These do not have to be checked and all mileage can be entered under taxpayer

Sch A- Line 1- Medical Expenses

RULE: Medical expenses (deductions) are entered on the "A Detail" worksheet under Schedule A

- Medical miles
  - Use the miles section driven for costs associated with a personal vehicle
  - All other transportation costs (parking, tolls, cab fare, airplane tickets, etc.) are entered under "Other medical expenses"
- Insurance Premiums
  - Medicare premiums are entered on Social Security worksheet 1040 Wkt1 and automatically transfer to Schedule A. They should not be entered again
  - Include any other qualifying payments for health insurance premiums - do not include pre-tax medical
  - Long Term Care Insurance may be deducted up to certain limits based on the age of the person at the end of the tax year. Enter total payment for each person. TaxWise will calculate the allowable amount
- Other unreimbursed medical expenses: It is not necessary to list each individual service provider; just itemize by category–e.g., doctors, dentist, prescriptions, transportation, etc using summary data furnished by Taxpayer
- If additional space is required, link from "F9 for additional worksheets" to "NEW Addl A Wkt – Medical and Contributions Worksheet"
- Include all applicable expenses. TaxWise will calculate the 7.5% of AGI nondeductible portion
- ***CA Note:*** Medical expenses reimbursed by an HSA are not deductible for federal but are deductible for CA
  - When Form 8889 is properly completed, TaxWise carries reimbursed medical expenses to CA Sch A

Sch A- Line 5- State and Local Taxes Paid

- [Sales tax deduction option expired 12/31/2011]
- State and local income taxes, including CASDI entered in California W-2 Only section of W-2, flow into Schedule A from W-2, 1099-R, and estimated payment entries

Sch A- Line 6- Real Estate Taxes

- Real estate taxes are generally paid in two installments due in November and February, but not late until a month later. The amount entered should be the amount actually paid in the tax year for the taxes. Enter real estate taxes paid on the personal residence and any other real estate. There is a line for your Principal Residence Real Estate tax, and another line for "Other Real Estate tax"
- California received IRS guidance that real estate taxes do **not** have to be based on the value of the property. Generally, this means that the whole amount paid will be deductible
- Two types of charges are **not** deductible:
  - Services provided to the property (like trash collection, sewer service fee, etc.)

- Direct assessments for improvements that tend to increase the value of the property (like curbs and sidewalks). When not deducted, these direct assessments can be added to the basis of the property

Sch A- Line 7- Personal Property Taxes, Not Listed Above

- Total amount paid to DMV includes non-deductible registration fees and may include unpaid parking tickets. Only the VLF amount is deductible. This amount is also listed on the Registration Card in their vehicle (near the bottom coded as "Lxxxx")
- Vehicle License Fee (VLF) qualifies as a personal property tax
- Also include the tax portion of boat or RV registrations

Sch A- Line 8- Other Taxes

- Such as foreign income taxes when not claiming a foreign tax credit, usually ***out-of-scope*** – see Pub 17
- ***CA Note:*** No deduction is permitted for foreign income taxes. If foreign income taxes are deducted for federal, an adjustment must be made on CA Sch CA, Line 39 second line

Sch A- Line 10- Interest Paid

- Interest paid on a mortgage(s), and any "points" paid during the tax year in conjunction with the mortgage(s), is deductible when the loan is used to buy or improve your main home
- Interest paid on a new loan to refinance an old loan that was used to buy or improve your main home is deductible
- Interest paid on mortgages to buy or improve a second home may also be deductible
- Interest on a home equity line may also be deducted for loan amounts up to $100,000 ($50,000 MFS)
- Motor homes and boats that provide basic living arrangements generally qualify as main or second homes
- Usually reported on form 1098
- Total the interest and points paid and enter the total on the line labeled "Home mortgage interest and points from Form 1098, not listed above"
  - If there are multiple mortgages, link to a scratch pad to enter each interest item
- ***Note:*** nothing is paid on a reverse mortgage, so there is no deduction
- Refer to Pub 17 for interest deduction rules
- Form 1098-MA - used to report certain mortgage assistance payments
  - Mortgage assistance payments are not included in income
  - Deductible mortgage interest must be amount paid by client, and does not include amount paid by assistance payments

Sch A- Line 12- Points Not Reported On Form 1098 (Paid For A Refinance)

- These must usually be amortized over the life of the loan
- Divide the points amount by the months of the loan (30 years =360 months) and multiply by the months that the loan existed this tax year. Enter the result directly on this line
- If the loan is refinanced, all the remaining points from the prior loan may be deducted

Sch A- Line 13- Total Mortgage Insurance Premium **[Expired 12/31/2011]**

Sch A- Line 16- Contributions – Cash

RULE: Charitable contributions are entered on the Schedule A Detail Worksheet.

- Includes checks, money orders, credit card payments
- While we do not need to see any proof, the client should know that no deduction is allowed unless the taxpayer has either:
  - Bank records (canceled check or bank/credit account statement) OR
  - Written acknowledgment from the charity documenting charity name, amount and date
    - Contributions of $250 or more **must** have bank record AND written acknowledgement, which affirms the value of any property or service received
    - The deductible contribution is the amount given less the value of any property or service received
- Enter mileage driven by the taxpayer(s) for non-reimbursed volunteer work or other charitable use. TaxWise will calculate the allowable amount
- In addition, unreimbursed travel expenses (parking, tolls, etc.) can be itemized

- It is not necessary to list each contribution to the same qualifying organization; just indicate the total by organization – e.g., Red Cross, Boy Scouts, United Way, etc.
- If additional space is required:
  - If "Addl A Wkt" was NOT used for Medical, link from last line to "NEW Addl A Wkt – Medical and Contributions Worksheet", otherwise
  - Open the existing "Addl A Wkt" from the form tree

Sch A- Line 17- Contributions – Other than Cash

- The taxpayer should have an acknowledgment for any contribution of $250 or more
- Amount of contribution is FMV of the item at the time of the donation
- Clothing and household items must be in good used condition or better
- Records of items and amount donated should be retained by taxpayer
- Non-cash contributions exceeding $5,000 make the return ***out-of-scope***
- If the total of all non-cash donations is $500 or less, list non-cash contributions separately in the appropriate section of the A-Detail form
- If total non-cash contributions exceed $500, do not enter anything on the "A detail sheet - other than cash contributions"; instead:
  - Go to Form 8283 to list all non-cash contributions
  - Donations of vehicles are ***out-of-scope***
  - Each donation date is listed separately ("Various" is not allowed)
  - Note columns d, e, and f should not be filled in if that donation is under $500
  - For column h, Method used to determine FMV, "Thrift shop value" usually applies
  - Form 8283 Section B is out-of-scope

Contributions – Carryover

- There are limits on charitable donations deductions made to certain organizations during any one tax year.
- Most contributions we will encounter are in the 50% category
  - This means that the deduction for the year cannot exceed 50% of the taxpayer's AGI; the balance carries over to next year
  - The entire amount of the deduction is allowed for the current year if it is under this limit
- Check the prior year's return for any "contribution carryovers" and enter the amount in the lower section of A Detail
- If "proforma" is used, this will occur automatically
- ***CA Note:*** TaxWise transfers the carryover to CA, without adjustment
  - Make an adjustment on CA Sch A in the rare instance that the CA carryover is different from the federal amount

Sch A- Line 20- Casualty and Theft Losses – out-of-scope

Sch A- Line 21-23- Miscellaneous deductions subject to 2% of AGI reduction

- Miscellaneous deductions must exceed 2% of AGI and include
  - Unreimbursed employee expenses: tools, uniforms, union dues, etc.
  - Tax preparation fees
  - Investment expenses
  - Claim repayments of $3,000 or less
- Unreimbursed Employee Business expenses requiring Form 2106 or 2106-EZ are ***out-of-scope*** unless the Counselor and Reviewer are certified in Military
- Enter items on appropriate lines in the "Miscellaneous" section of Schedule A
- TaxWise will calculate the 2% of AGI nondeductible portion

Sch A- Line 28- Other Miscellaneous Deductions not subject to 2% of AGI reduction

- If you have one item to enter, and it does not come from a supporting form, you can enter the type and amount directly
- If you have a second item to enter that does not come from a supporting form, use "New Other Deductions-Schedule A Line 28 Other Deductions" not a Scratch pad

- TaxWise allows the following entries in the Type Field ONLY (see Pub 529):
  - Amortizable Bond Premiums ***out-of-scope***
  - Casualty And Theft Loss ***out-of-scope***
  - Federal Estate Tax ***out-of-scope***
  - Gambling Losses
  - Impairment-Related Work Expenses (for a disabled person)
  - Claim Repayments
  - Unrecovered Pension Investments (includes annuities)
  - Schedule K-1 ***out-of-scope***

Gambling Losses

- Gambling losses are NOT subject to the 2% of AGI reduction
- Enter gambling losses on Form W-2G, if that form is used
- CA lottery losses should be entered on a W-2G coded as a California lottery – not deductible for CA
- If a Line 21 worksheet or scratch pad is used instead of a W-2G, enter gambling losses but not more than gambling income and make any needed CA adjustment

Claim Repayments

- If the taxpayer had to repay more than $3,000 that they had included in income in an earlier year, enter repayment amount on line 28
- If $3,000 or less, the repayment is listed on line 23 and is subject to the 2% of AGI reduction

Unrecoverable Pension or Annuity Investment

- If a deceased person has a pension without survivor benefits, any unrecovered pension contributions may be recovered here on the final return
- If the Taxpayer cashed in an annuity, they will have received a 1099-R with the amount they received
  - If the investment (Box 5 or Box 9b) is greater than the amount shown in Box 1, the net loss can be claimed as a miscellaneous itemized deduction

CREDITS

Non-Refundable Credits

- Non-refundable credits offset tax due, whereas refundable credits may generate a refund
- Note that even if the Line 46 tax is zero, some (or all) of the Child Tax Credit may become a refundable Additional Child Tax Credit

LINE 47 ------ FOREIGN TAX CREDIT

- Foreign Tax reported on Form 1099-INT, 1099-DIV, K-1, or substitute payee statement up to $300 single or $600 joint should be entered directly on the top of TaxWise Form 1116 input screen – see above
  - Use a scratch pad (if there are multiple payments)
- Foreign taxes paid over these limits make the return ***out-of-scope***
- Foreign taxes paid coming from other forms make the return ***out-of-scope***

LINE 48 ------ CREDIT FOR CHILD & DEPENDENT CARE EXPENSES

- This MAY apply if taxpayer paid someone else to care for
  (1) A dependent child who was **under age 13 when child care was provided** OR
  (2) Their dependent or spouse who could not care for him/herself
- ***Note:*** in the year the child turns 13, these expenses can only be for the part of the year before his/her 13th birthday
- The "DC " column next to this dependent on the MAIN INFO form must be checked to add form 2441 to the TaxWise tree - UNLESS the person being cared for is the spouse
- **If the dependent is the spouse**, you must manually add the 2441, then go to the bottom of the 2441 and check the spouse box and put 12 in the "Number of Months Disabled" section
  - This will populate item 2a with the spouse's name and SSN – otherwise the form will not accept the spouse's name

- Enter required information about the care provider – in this case the SSN or Tax-ID will not show dashes
  - ***Note:*** Return cannot be e-filed if EIN/SSN of provider is unavailable
- If additional space is needed for more Care Providers:
  - Link from the care provider name field to "NEW Providers – Form 2441 Line 1a and Line 1b"
  - Link from the amount paid field to "New ID and amount-Form 2441 Line 1c and Line 1d"
- Enter the information about the person(s) receiving care
- If dependent care benefits were paid by the employer, make sure that this amount has been entered correctly in the TaxWise W-2 form
- The Child/Dependent Care credit (if any) transfers to Form 1040, Page 2
- ***CA Note:*** CA has a nonrefundable credit for Child and Dependent Care Expenses
  - When Form 2441 is completed, TaxWise adds CA Form 3506 to the forms tree and carries the information from the 2441
  - Complete the Form and get the red out

LINE 49 ------ EDUCATION CREDITS

- If the taxpayer paid, or used loans, for qualified expenses for themselves or a dependent to enroll in or attend an eligible educational institution, an education credit may apply
- A dependent cannot take this credit, but they will report taxable scholarship income, if they have any
- The important thing is that each student can use ONLY ONE credit, although each (different) student on a return can use different credits
- The student should receive a Form 1098-T from the educational institution, which shows tuition and fees paid as well as scholarships
  - See Scholarships, Fellowships & Grants – W-2 or 1098-T above if scholarships exceed tuition and fees
- Expenses used for calculating either credit must be reduced by any scholarship amount designated for those expenses
- Go to Form 8863

American Opportunity Credit

- For 2009 through 2012, this credit is applicable to the **first four years** of post-secondary education, if the student is enrolled at least half time
- Whether the AOC was claimed in a prior year is irrelevant; the year counts if college courses were taken
- Foreign college-level study is also counted toward the first four years
- Education after four years of "college" is ineligible for the credit
- These qualifying first four years do not have to immediately follow secondary school; there can be a break in between
- Up to 40% (maximum $1,000) of this credit may be refundable
- Allowable expenses are tuition, fees, books, supplies and computers required as a condition of enrollment
- Enter in part 1 of form 8863 (note that the credit will be split between Line 49 and Line 66)

Lifetime Learning

- All other postsecondary education not covered under the American Opportunity credit
- Allowable expenses are only tuition and fees

Expanded Form 8863

- New Part III must be completed for each student for which an American Opportunity Credit or a Lifetime Learning Credit is claimed
- Add additional forms 8863 as needed

Which education credit is best

- If the student qualifies for the American Opportunity credit, in almost all cases it will be the most beneficial credit because
  - It is a partially refundable credit,
  - Eligible expenses include course materials as well as tuition and fees
  - The AGI limit is higher than the lifetime credit

- If the student does not qualify for the American Opportunity credit because they are not a half-time student or are not in their first four years of college, the Lifetime Learning Credit should be claimed
- The recommended procedure to determine which Education credit (Lifetime or AOTC) is better:
  - First complete ALL other aspects of the return. Then:
  - Enter amount information for the Lifetime Learning credit
    - Note the tax result and remove the information.
  - Enter amount information and if Taxpayer is Under 24, has a living parent, and does not provide half his support through earned income check the box on Page 2 of Form 8853 below line 13 for the AOTC Credit, if the individual qualifies
    - Note the tax result; if this produces the best result, you are done; otherwise remove the AOTC Credit and
- Re-input the Lifetime Learning Credit if it produced a better result
- If there are multiple students, proceed one student at a time. All various combinations should be tried
- Note that if an Education Credit calculates to zero, you MUST remove the 8863 (or the entries) from the Forms Tree; otherwise it will cause an e-file reject
- ***TWD Tip***: Use the "What If" mode and create separate scenarios explained above

Note: Education expense may also be taken as a Business expense on Schedule A or Schedule C IF they otherwise satisfy the requirements for deductibility

LINE 50 ------ RETIREMENT SAVINGS CONTRIBUTION CREDIT

- Go to Form 8880, automatically added to the Tree when a retirement or IRA contribution is entered on W-2 or IRA wkt
- This credit is available to taxpayers who made elective contributions to IRAs, Roth IRAs and other qualified plans, IF their adjusted gross income was below certain maximums (the amount of the credit decreases as AGI increases)
- Entries of qualified retirement plan information from Box 12 of W-2 or IRA contribution on IRA Worksheet will transfer this information to form 8880, which will then be "red" on the Forms Tree
- Answer student question
- Answer the questions about the plan distributions - use F3 to confirm a zero distribution
  - Distributions from some (not all) plans should be included for the current year and the two prior years
  - To be included, the plan must have been one that contributions to it would have been elective and qualified for the credit
  - Plans that require contributions are not elective
- Refer to the instructions on Form 8880 or Pub. 17
- Any credit computed here will be carried forward to Form 1040, page 2.

LINE 51 ------ CHILD TAX CREDIT

- This credit is for taxpayers who have a qualifying child under age 17 (EOY)
  - It is in addition to the Child and Dependent Care Expenses and Earned Income credits
- TaxWise automatically places "X" next to the dependent name on the Main Info form once a date of birth is entered for a dependent who was under the age of 17 as of the end of the tax year
- If the CTC applies, TaxWise creates and completes form 1040 Wkt3

Note: If the client's tax liability is less than the allowable Child Tax Credit, the client MAY be eligible to claim the refundable Additional Child Tax Credit. TaxWise will complete form 8812 and carry the credit amount forward to Form 1040, page 2

LINE 52 ------ RESIDENTIAL ENERGY CREDITS [Expired 12/31/2011]

LINE 53 ------ OTHER CREDITS

Schedule R: Credit for the Elderly and Disabled

- This credit applies ONLY if the taxpayer or spouse
  - (1) was age 65 or older at the end of the tax year OR
    (2) retired on permanent and total disability, had taxable disability income AND was under the mandatory retirement age

- Income limitations apply based on filing status, types of income and AGI
- Many Tax-Aide clients are over age 65 and are collecting Social Security, and therefore DO NOT qualify for this credit. However, with SS retirement age increasing, we may see more Schedule R's. Refer to Pub 17 to determine if a client is qualified for this credit
- If the taxpayer(s) have no Social Security income, TaxWise will automatically calculate the credit
- If the taxpayer(s) is on Permanent Disability, which is indicated by checking the box on the Main Info form under Taxpayer Information:
  - Complete Sch. R Part II Statement of Permanent and Total Disability
  - Enter the amount of non-taxable veterans pension or any other pension, annuity or disability income that is excluded from income
- ***Hint:*** Make sure all Social Security payments (1099-SSA and RRB-1099) have been entered to avoid generating an incorrect credit

All other line 53 credits are out-of-scope:
Form 3800 General Business Credits
Form 8396 Mortgage Interest Credit
Form 8859 DC first Time Homebuyer Credit
Form 8910 Alternative Vehicle Credits
Form 8834 Plug-In Electric And Electric Vehicle Credit
Form 8936 Plug-In Electric Motor Vehicle Credit

OTHER TAXES

LINE 56 ------ SELF EMPLOYMENT TAX

TaxWise calculates Schedule SE using entries from Schedule C
Unique rules apply to the clergy and are ***out-of-scope***

LINE 57 ------ UNREPORTED SOCIAL SECURITY AND MEDICARE TAX

This comes from Form 4137 Tip income not reported on W-2s see above

LINE 58 ------ ADDITIONAL TAX ON IRA, OTHER QUALIFIED PLANS

- This is the 10% penalty calculated on Form 5329 for early withdrawal before age 59-1/2
- Other penalties computed on Form 5329 Parts II – VIII are ***out-of-scope***
- If there is a penalty in Part I, Form 5329, and no exception applies, it is not required to print or attach the form to the return
- If there is an exception to the penalty, check the box to force a 5329 on Form 1099-R input
  - On the 5329, the amount subject to penalty is shown on line 1
  - If an exception applies:

TAXWISE DESKTOP	TAXWISE ONLINE
• Place your cursor on the box on Line 2 and F1 to see the exceptions to the penalty • Enter the appropriate code and the amount that is NOT subject to additional penalty on Line 2	• Using TaxWise Online Help – go to IRS Codes, Miscellaneous_Codes, 5329 Exception Codes • Enter the appropriate code and the amount that is NOT subject to additional penalty on Line 2

- If the client failed to take their required minimum distribution, they may be liable for the Excess Accumulation penalty (50%) computed in Part VIII, which is ***out-of-scope***. The following is informational only
  - A waiver of this penalty may be requested in Part VIII of Form 5329 by linking to Line 52 and completing the Explanation for Request of Waiver of Tax form
  - The amount of the shortfall with respect to which the waiver is sought must be indicated
  - You should refer the client to a paid preparer

LINE 59A ---- HOUSEHOLD EMPLOYMENT TAXES – (*out-of-scope*)

LINE 59B ---- FIRST-TIME HOMEBUYER CREDIT REPAYMENT FORM 5405

- 2008 homebuyers, who received the First Time Homebuyer credit Line 68 of the 2008 return, must repay the credit starting in 2010
  - The repayment is spread over 15 years
  - Direct entry of the repayment amount is permissible on Form 1040 Line 59b
- The first-time homebuyer credit claimed during 2009 – 2011 is subject to repayment if within 36 months of the purchase date
  - There is a disposition of the home, including death of a joint owner or divorce, or
  - The home is no longer used as the main home
  - There are some exceptions
- If Form 5405 page 2 is used or required because of a disposition, separate page 2's will be required for the Taxpayer and Spouse
- The exceptions for destruction / condemnation (F or G) are ***out-of-scope***

LINE 60 ------ OTHER TAXES – (*out-of-scope*)

PAYMENTS AND REFUNDABLE CREDITS

LINE 62 ------ FEDERAL INCOME TAX WITHHELD

- Federal tax withheld is transferred to this line from entries on Forms W-2 and 1099
- For 1099 withholding not listed elsewhere (e.g. 1099-B), enter on the line immediately below Line 62 or, if there are multiple amounts, link from that field and enter on a scratch pad

LINE 63 AND CA 540 LINE 72 - 2012 ESTIMATED TAX PAYMENTS

- These are payments that the taxpayer HAS MADE using either 1040ES (federal) and/or 540ES (CA) for the CURRENT tax year
- Go to F/S Tax Paid Worksheet
- ***Note:*** See Estimated Tax Payments For Next Year below to prepare payment vouchers for NEXT year's estimated tax payments as well as applying any overpayments (refunds) from this return to the NEXT year's estimated tax

Federal Estimated Tax Payments

- Enter any refund amount from last year that was credited toward estimated taxes for the current year
- Enter payment dates shown on taxpayer's checks
- Enter actual amount paid in each quarter
- The fields to the right are calculated fields. Do not attempt to change these fields

State Estimated Tax Payments

(Middle section on the same form)

- Note that this section loads horizontally – unlike the federal
- All payments for state taxes (for any tax year) made during the tax year will be transferred to Schedule A
- The payments for the current tax year will be transferred to the CA tax return as taxes paid
- Enter payments made for prior years on the applicable line

LINE 64 ------ EARNED INCOME CREDIT

- EIC is available to people who have earned income, subject to income limits, and generally have at least one qualifying child
  - It is a refundable credit – it is not necessary to have federal tax to claim the credit
  - Higher income limits apply when there is more than one qualifying child, up to three children
- If there is no EIC qualifying child:
  - EIC is available to taxpayers age 25 (EOY) and under age 65 (EOY)
  - If married filing joint, only one taxpayer has to meet the age requirement

- TaxWise recognizes EIC eligibility and calculates the credit automatically; however **when dependents are included on the return, the "EIC" box on the MAIN INFO form must be checked –** TaxWise will determine whether or not EIC applies
- If the return qualifies for EIC credit, you must complete the "Sch EIC- Earned Income Credit" form and the "Sch EIC Wkt-Earned Income Credit Worksheet" which TaxWise has added to the Tree
- When completing Sch EIC, answer only question 4a **OR** 4b – answering both causes the return to be rejected by the IRS
- Answer all questions to remove the red on the worksheet
- Sch EIC wkt-Line 7 asks if "the child is unmarried"
  - Check this question if the EIC does not appear on the 1040 as it is a common error

LINE 65 ------ ADDITIONAL CHILD TAX CREDIT

- If a taxpayer's tax liability is less than the allowable non-refundable Child Tax Credit, the taxpayer may be eligible to claim the refundable Additional Child Tax Credit
- TaxWise computes this credit automatically on Sch 8812 and enters it on Form 1040, Page 2
- The additional CTC is limited to the 15% of any earned income above the current year's limit ($3,000 for 2008-2012)
- The total of the two credits will be $1,000 or less per eligible child

LINE 66 ------ AMERICAN OPPORTUNITY TAX CREDIT

- Up to 40% (maximum $1,000) of the American Opportunity credit will be refundable
  - Complete Form 8863 and TaxWise will place the appropriate refundable portion on line 66,
  - ***Note:*** If the taxpayer is under 24 and does not provide more than half their own support from earned income, none of the credit will be refundable – see Form 8863 Instructions for Line 7
    - Check box 7 on Form 8863

LINE 67 ------ FIRST TIME HOMEBUYER CREDIT –FORM 5405 [EXPIRED]

LINE 68 ------ AMOUNT PAID WITH REQUEST FOR EXTENSION TO FILE

- Directly enter any payment made
- When doing a prior year return, remember to ask if payments have been made

LINE 69 ------ EXCESS SOCIAL SECURITY

This entry is made automatically if there are multiple W-2s for an individual and the combined wages exceed the maximum subject to Social Security for the year.

LINE 70 ------ FEDERAL TAX ON FUELS FORM-4136 (*out-of-scope*)

LINE 71 ------ CREDITS 2439-8839-8801-8885 (*out-of-scope*)

CA ADJUSTMENTS & DIFFERENCES

This section identifies specific situations that MAY need to be addressed on CA returns.

- While California generally follows IRS tax law, there are a number of situations where California and the federal law differ – see CA Pub 1001 for more information
- These differences are handled on CA Schedule CA (540) by either adding to, or subtracting from the amounts reported to the IRS on Form 1040
- In most cases, TaxWise will make the appropriate adjustments from entries on the federal forms
- Double-check these entries and correct any problems by returning to the appropriate income and interest forms on the federal return
- While adjustments can also be made directly to the TW form CA Sch CA, that is NOT recommended
  - Except for the few cases where adjustments are not made automatically by TaxWise
  - ***Caution:*** Direct entries may override other subsequent changes to the return.

FILING STATUS

Head of Household

- CA 4803e MUST be completed for CA returns being e-filed as Head of Household (HOH)
- Failure to complete the form will generate an error when running diagnostics
- This worksheet asks a series of Yes or No answers – complete it carefully to assure proper filing

INCOME EXCLUDIBLE FOR CA

California taxes worldwide income except for:

- Ridesharing fringe benefits - the employer should have reported this difference by reporting different state wages on W-2 – the CA adjustment must be manually entered, see W-2- State Section above
- Clergy housing income -- see Pub 1001 (tax provisions peculiar to clergy are ***out-of-scope***)
- Indian Tribal Members Income, if live & work on tribal land (see Indian Tribal Income - 1040 Line 7 above or 1040 Line 21 above)
- Interest paid on municipal bonds issued by the state of CA, including Counties, Cities, or Agencies (1040 Line 8 above)
- Interest earned from US Government Savings Bonds, US Treasury Bills and any other bond of the US or US territories (see 1040 Line 8 above)
- Dividends from CA municipal and U.S. government bond funds (see 1040 Line 9 above)
- California State Tax Refunds (see 1040 Line 10 above)
- Tier 1 (1040 Line 20 above) and Tier II railroad retirement benefits (1040 Line 15/16 above)
- Unemployment compensation paid by CA or another state (1040 Line 19 above)
- Social Security Benefits (US only) (1040 Line 20 above)
- California lottery winnings (1040 Line 21 above) (other state lottery winnings are taxable for CA)
- Government agency authorized reward from a crime hotline (see Pub 1001)
- HSA distribution in excess of qualified medical expenses (1040 Line 25 above)

INCOME INCLUDIBLE FOR CA

California taxes certain items not taxable on the federal return:

- Wages – HSA employer contributions (1040 Line 7 above)
- Interest from non-CA state and municipal bonds (1040 Line 8 above)
- Interest or other income earned in an HSA (1040 Line 8 above)
- Dividends from non-CA municipal bond funds (1040 Line 9 above)
- Retirement payments from foreign governments such as Canadian OAS, CPP, QP (1040 Line 15/16 above)
- Discharge of indebtedness excluded for federal in excess of CA limits (1040 Line 21 above)

Military Income

- See Pub 1032 for differences

Inherited Property Basis Difference (1040 Line 13 above)

- Property inherited from decedents dying in 2010 has a basis of FMV on the date of death for CA purposes
- Federal basis may be different when shown on Form 8939

IRA Basis Difference

- ***Note:*** IRA basis recovery rules using form 8606 are ***out-of-scope***; clients with IRA basis, including CA basis differences, should be referred to a paid preparer
- There may be a basis difference for CA as shown in the table below
- The Client would have to produce records showing amount contributed for each of these years and the amount deducted for federal and California (if allowed). If the taxpayer does not have these detailed records, there will be no adjustment of the taxable IRA distribution
- Generally, CA basis in excess of federal basis is applied to reduce the amount of taxable IRA distribution until CA basis is the same as federal basis
  - Thereafter, no further adjustment would be needed as CA follows federal IRA basis recovery rules
- CA Pub 1005 has detailed instructions and worksheets

Year	Federal	California
1975	Max deduction $1,500	No IRA deduction
1982-1986	Max $2,000 with earned income	Max $1,500 and not allowed if covered by pension plan
1987-1994	IRA limited to net federal Sch C income	IRA limited to CA net Schedule C income if less than federal
2007-2009	AGI limits increased for deductible IRA for active participants	CA AGI limits lower, allowed deduction could have been lower
2007-2009	Catch-up provisions	Non-conformity
1987 - Present	Non-deductible contributions	Separate election

Capital Loss Carryforward (CA Sch D, see above)

- Capital Loss carryforward amounts can vary between federal and CA due to different depreciation rules; however, we don't usually see these differences because the return would be out of scope
- TaxWise does NOT automatically carryforward the unused loss amount from the prior year's CA Sch D
- If not yet entered, confirm that the prior year's return did not have a different net capital loss for CA than for federal. If there is a difference, confirm that the CA amount is correct and use the CA return amount (our typical client would not have such a federal to CA difference)
  - Go to CA Sch D
  - Enter combined federal long and short term carryforward or the CA amount on Line 6 as a negative number
- Verify that TW form CA Sch CA has no subtractions or additions (or the correct amount) on the Capital Gain/loss line

DEDUCTIONS ALLOWED BY CA

- Medical Expenses reimbursed by HSA distribution (Sch A Line 1 above)

DEDUCTIONS NOT ALLOWED BY CA

- Educator Expenses (Line 23 above) [expired on Fed 2011]
- Employer portion of Self-Employment Tax in excess of ½ total SE tax (Line 27 above)
- Tuition and Fees (Line 34 above) [expired on Fed 2011]
- State or local income taxes (Sch A Line 5 above)
- Foreign income taxes (Sch A Line 8 above)
- PMI deducted as interest on the federal return (Sch A, Line 13 above) [expired on Fed 2011]
- CA Lottery gambling losses (1040 Line 21 above and Sch A Line 28 above)

STATE TAX WITHHELD

- CA taxes withheld from wages, 1099-R, or any other 1099 will appear on 540 Line 71 if properly entered on the respective form. TaxWise completes the type of form information
- If CA tax was withheld from a state-only form (e.g. 593 real estate sale), enter the withholding on 540 Line 73

STATE ESTIMATED TAX PAYMENTS

See State Estimated Tax Payments section above

CA ONLY CREDITS

Renter's Credit (non-Refundable)

- CA AGI must be less than $36,337 in 2012 or $72,674 for MFJ
- Rent was paid on a principal residence (which includes a mobile home for which the taxpayer pays rent for a space in a mobile home park) in CA for 6 months or more during the tax year
- The residence is not exempt from property taxes
- The taxpayer did not claim a homeowners property tax exemption at any time during the year
- If CA AGI is too high or there is no CA income tax (Form 540 Page 2 Line 35), no credit will be allowed

- Answer "NO" to the question "Did you pay rent…" on CA 540 Pg 1 and avoid filling out the renter's credit worksheet
- If the client is eligible for the credit, check the "YES" box (Did you pay rent….) on CA 540 Pg 1
  - TaxWise adds the Renter's Credit Worksheet to the TaxWise form tree
  - Complete the worksheet
  - TaxWise will calculate the credit if the taxpayer(s) qualifies
- Complete the worksheet carefully to assure proper credit. While the information is not transmitted to the FTB, it can be required if the taxpayer is audited at a later date – therefore the entries should be completed with as much information as the taxpayer can provide. Leaving a field red will not stop the return from being e-filed

Child and Dependent Care Credit (CA 3506) (non-refundable)

- California has its own form that must be completed when claiming a Child and Dependent Care Credit.
- Once form 2441 has been completed, TaxWise adds CA 3506 (with a red !) to the forms tree
- Answer question "Was care provided in California?"
- Part I (optional) asks for Unearned Income, list both source(s) and amount(s) – this includes such items as interest, dividends, unemployment compensation, pensions and annuities, social security, inheritances, court awards, child support, property settlements, etc.
- Part II, the telephone number of the care provider and the location where care was provided is required to e-file the return.

Tax Credit for New Home Purchase

- California has an income tax credit for new home/ first time buyer – see Pub 3549
- The taxpayer must have received a New Home buyer certificate from the state
- The credit, which is spread over three years, is claimed on Line 43
  - Link to Schedule P – Page 2 Line 6 and input the current year's portion of the credit (1/3 of the total)
- This credit is not refundable and if the credit for the year (1/3 of the total) exceeds the amount of tax before the credit, there is no carryforward of the unused amount

Child Adoption Credit -- out-of-scope

Dependent Parent Credit Code 173

- This credit is available to a person filing MFS who cannot claim Head of Household status because they have no dependent children that would qualify them as "considered unmarried," but does have a dependent parent(s) for which the taxpayer paid more than half the household expenses
- The taxpayer must have lived apart from their spouse/RDP for the last half of the tax year
- The taxpayer must have provided more than half the cost of the dependent parent's household costs
- The credit is 30% of the tax due (Line 35) limited to a credit of $401
- The credit cannot be claimed if the Joint Custody HoH Credit is claimed
- See Form 540 instructions

Joint Custody Head of Household Credit Code 170

- If, under a joint custody agreement a child lives with the custodial parent more than one half the year, a credit is available to a non-custodial parent filing Single or MFS who maintains his/her home as the main home for a qualifying child and lives with the child for at least 146 days but less than 219 days and possesses a decree of dissolution, separation, or an agreement entered into before the final decree is issued
- The credit is 30% of the tax due (Line 35) limited to a credit of $401
- The credit cannot be claimed if the Dependent Parent Credit is claimed
- See Form 540 instructions

Senior Head of Household Credit Code 163

- This credit is available for a person over 65 who qualified as Head of Household for 2010 or 2011, but does not qualify in 2012 because the qualifying individual died in 2010 or 2011
- AGI must not exceed $66,391 for 2012
- The credit is 2% of Taxable Income (Line 19), but not more than $1,251 for 2012
- See Form 540 instructions

CA ONLY VOLUNTARY CONTRIBUTIONS

Contributions
California allows the taxpayer to make contributions to any special funds listed on Form 540 page 3

REFUND OR BALANCE DUE

UNDERPAYMENT PENALTIES

- Calculation of estimated tax penalties is ***out-of-scope***
- If the client owes the IRS more than $1,000 or CA more than $500, they may be billed for the penalty at a later date
- Inform the Taxpayer of potential penalty(ies)
- Advise them that we are taking the penalty(ies) off the return
- The IRS/FTB may calculate a penalty and bill them accordingly

Clear Federal Penalty

- This may not be necessary if the defaults are set to zero the penalty
- If Form 2210 appears on the TaxWise tree with a red "**!**" in front of it, TaxWise has assessed a federal penalty

Hint: Do NOT simply go into form 1040 and delete the penalty. This will cause a transmission reject, even if the amount is as small as $1.00

- Go to Form 2210 Pg 1 and DO ONLY THE FOLLOWING, nothing else:
  - Enter a value of $1 on Line 8 (last year's total tax liability) – DON'T do anything else
  - The remaining red fields will correct themselves

Clear CA Penalty

- If form CA5805 appears on the TaxWise tree with a red "**!**" in front of it, TaxWise has assessed a CA penalty

Hint: Do NOT simply go into form 540 and delete the penalty. This will cause a transmission reject, even if the amount is as small as $1.00

- Go to Form CA5805 Pg 1 and DO ONLY THE FOLLOWING, nothing else
  - Enter a value of $1 on Part II Line 5 (last year's tax liability) - DON'T do anything else
  - The fact that some fields remain red is okay

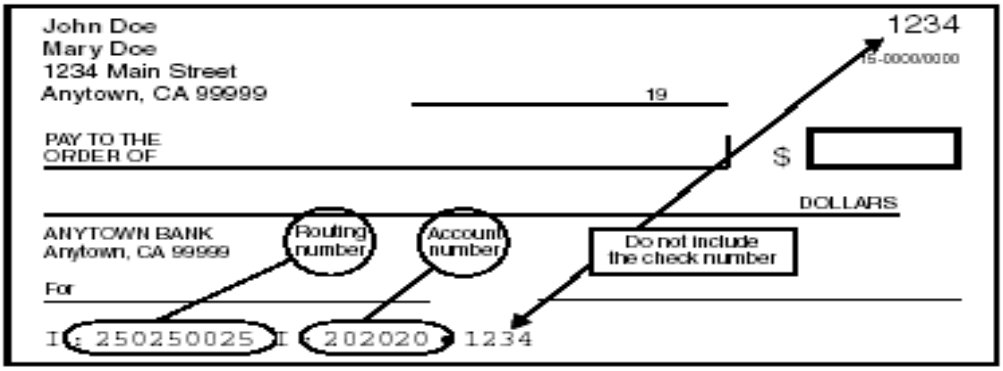
INJURED SPOUSE CLAIM

- If there is a refund due (because of withholding or estimates paid by taxpayer) and that refund will be offset by debts of the spouse that originated before marriage, the taxpayer may request that a Form 8379 be filed with the return
- Because 8379 requires income splitting, it is ***out-of-scope***
- ***CA Note:*** There is no equivalent provision for California

DIRECT DEPOSIT

- If the taxpayer has a refund, the IRS and/or FTB can deposit it directly into the taxpayer's bank account, which
  (1) eliminates printing and mailing a check and
  (2) gets the refund to the taxpayer approximately a week sooner
- While the taxpayer is not specifically notified by the IRS or FTB when the refund has been deposited, it will show up on the next bank statement (the bank might notify its client)
- Enter the 9-digit Routing/Transit number (which is always on the left side of the MICR encoded line) and the account number
  - Never use information from a Deposit slip and never take numbers over the phone
  - For bank account numbers, enter dashes only if included in the account number field on the check. Omit spaces and special symbols

- DO NOT enter the check (sequence) number, which will match the check number on the upper right corner of the check and may appear either before or after the account number



- If the taxpayer selected direct deposit on the previous year's return, specifically ask if they want to use the same account (the account information does not pro-forma) – don't assume!

Federal

- The bank account information must be entered in two (2) places for verification
  1. Near the bottom of the MAIN INFO form above the Practitioner PIN and
  2. Near the bottom of Form 1040, Page 2.
  - The information must match
  - If it does NOT, you get an error when running diagnostics (but not when it is entered)
- Federal refunds can be split among three accounts, in which case complete form 8888 and leave the information blank on the MAIN INFO and 1040 page 2
- For federal refunds, the client can request a portion of their refund to buy up to $5,000 in U.S. Series I Savings Bonds
  - The amount requested (Line 4) must be a multiple of $50 and the bonds will be issued in the name of both taxpayers if this is a joint return
  - Use Form 8888 to apply all or part of the refund to Savings Bonds.
  - Taxpayer can buy bonds for themselves, joint with others or someone else and may designate beneficiaries
  - Client can contact Treasury Retail Securities at 1-800-245-2804 to check status of their bonds

CA

- If there is a federal refund and a California refund, Form 540 page 3 must have the appropriate box checked to have the refund deposited in:
  - The same account as the federal (do not enter bank account info on CA form)
  - A different account, or
  - Mailed
- If there is no federal refund but there is a California refund or if the CA refund is to go to a different account, check the second box on page 3 of the 540
  - Account 1 bank information below the check boxes will now turn red
  - When you enter the Bank information another set of boxes further down will turn red and must have verification entries
  - Do not enter the bank information on the Main Info, 1040, or any place that is not red
- The California refund can be split between two bank accounts. This is entered on page 3 of the 540
  - If splitting between accounts, enter the amount to be deposited in each account
- If auto deposit or ACH withdrawal are elected, answer the question on Pg 3 regarding whether the financial institution is in the U.S.

DIRECT DEBIT

Federal

- If the taxpayer has a federal balance due, and requests direct withdrawal from his bank account, proceed as follows:
  - The bank account information must be entered near the bottom of the MAIN INFO form above the Practitioner PIN
  - On 1040 page 2 just below "Amount you Owe" there is an "Electronic filing only" section where you must check the Yes box to have the funds automatically withdrawn
  - Go to Form "ACH 1040/ES," which has been added to the tree
  - For Direct Debit, you enter the bank account information for verification on ACH 1040/ES, not on 1040 page 2
  - Enter the amount the client wants debited
  - Specify the withdrawal date. They can specify April 15 as the withdrawal date
    - However if they might be subject to a penalty because of the amount they owe, you should suggest immediate payment to reduce penalties

CA:

- Electronic Funds Withdrawal is also an option for CA balance due
  - Near the bottom of Form 540 Pg 3 select the first "Electronic Filing Only" "If you want your balance due withdrawn"
  - Enter the date the taxpayer wants the funds withdrawn
  - Enter the amount of funds to withdraw
  - Enter the bank account information for this withdrawal. Required even if the same account as federal
  - Re-enter the bank account information in the following section for verification of the account numbers

ESTIMATED TAX PAYMENTS FOR NEXT YEAR

FEDERAL ESTIMATED TAX PAYMENTS

Go to 1040ES Pg 1

Pre-printed IRS payment vouchers are no longer furnished by the IRS if the prior year return is e-filed

- If a client expects a balance due of $1,000 or more for the next year, they may increase withholding from their paychecks using form W-4 or from their retirement income using form W-4P. If withholding will be insufficient, they should make estimated payments in order to avoid penalties
- Clients should not mail a quarterly estimate with the 1040V or tax return
- The Taxpayer Address used on the vouchers does not have to be the same as the address on the tax return. There is a box on Voucher 1 that allows you to change the name or address
- There are two ways to compute estimated taxes:

Option 1

- You can estimate taxes at a level to avoid underpayment penalty (90, 100 or 110% of the current year's liability – refer to Pub. 17), to pay the total amount due, or to generate a refund
- If no substantial change in income is expected for the following year, look at this year's return and discuss the option of paying more or less based on the current year's result, OR
- On the "estimate desired" line at the bottom of the first section of Form 1040 ES, enter the total estimated tax amount (rounded to the next multiple of $20) for the next year – the amount will be divided into four equal parts and carried forward to the vouchers

Option 2

- If a substantial change in income, filing status, dependents, or credits is expected, fill in the "non-computed" fields of 1040ES Pg 1
- Scroll down the form to fill in any other additional income and credit information, based on this year's return and additional information from the client
- TaxWise will compute the appropriate estimated payments and enter the amount on the vouchers

Hint: Note that computed tax does not subtract any withholding from any source; therefore, you need to input the estimated withholding for the following year on Line 15

Application of overpayments to next year's estimated taxes

- A refund can be applied to next year's estimates. This is not recommended for several reasons
  - If the prior year return is not brought in or not pro-forma, the client may not remember the amount applied
  - If there is any adjustment on the return, the amount shown as applied may not have been applied and the client may not tell you of this change
- However if the client insists, proceed as follows:
  - On 1040ES before the first voucher is a section that shows the amount of the refund, followed by boxes that allow you to credit "All" or "1st Installment Only"
  - Checking ALL will apply all of the refund to the estimates starting with the first until used up
    - If the refund is more than the total estimates, the balance of the refund will be refunded and this will be shown on page 2 of the 1040
    - Checking ALL and asking for equal division will reduce each estimate payment by the same amount
  - Checking the "1st installment only" box will apply the refund only to the first installment and will refund any amount not used for the first installment
- If a client specifies a partial amount of their refund to be applied that does not match or exceed their first installment, the amount of refund shown on the 1040ES must be overridden and the partial amount entered. Your site coordinator may have to accomplish the override

Payment of Estimates with automatic withdrawal

- This can be a big advantage for taxpayers who may forget their obligation to pay estimates on time. However, they should be reminded that they must assure that sufficient funds are in their account on the designated withdrawal date
- Estimated payments can be automatically withdrawn from the Taxpayers bank account by using ACH 1040-ES
- Go to ACH 1040/ES
- If using ACH for the balance due on the 2012 return:
  - The first estimate for 2013 and subsequent estimates requires additional, separate ACH forms
    - ***TWD:*** Use Shift+F10 or "Copy Tab" at top of page
    - ***TWO:*** Hover over the first ACH 1040/ES form in the tree and click on "+"

CA ESTIMATED TAX PAYMENTS (CA 540ES WKT)

- If a client expects a balance due of $500 or more for the next year, they may increase withholding from their paychecks (form DE 4 available from their employer) or from their retirement income (form DE 4P available at www.edd.ca.gov. If withholding will be insufficient, they should make estimated payments in order to avoid penalties
- California does NOT provide pre-printed vouchers for estimated payments (like the federal used to)
- CA estimate requirements are slightly different from the IRS requirements, but are generally close enough that the same procedures can be used to estimate the tax
- Open Form CA 540ES WKT and use the same processes for calculating the estimated tax as used for federal
- California Estimates are distributed 30% to first quarter, 40% to second, none to third and 30% to fourth quarter

TAXWISE DESKTOP	TAXWISE ONLINE
You must print four individual pages in TaxWise if printing forms instead of a return	You must print four individual pages in TaxWise if printing the ES forms only, or generate the PDF for the return and print only the estimated tax payment voucher pages

- Electronic funds withdrawal
  - After completing 540ES, go to 540 Pg 3, bottom of page, to specify which estimates are to be automatically withdrawn

PRINTING BLANK ESTIMATE FORMS

- TaxWise requires an entry on 1040ES and/or 540ES worksheet
  - Enter $1 on 1040 ES Pg 1, Line 15, Income tax withheld
  - Enter $1 on 540ES Wkt, Line 20, Income tax withheld
  - Print each page

FINAL STEPS IN TAX RETURN PREPARATION

CLEAR WARNINGS

- Check the flags to the left of each form in the Form Tree
- Open each incomplete form

TAXWISE DESKTOP
! A red exclamation mark - Form is incomplete **✓A blue check mark - Form is complete** **Blank – Form available, but not necessarily required**

TAXWISE ONLINE
Yellow triangle with exclamation mark - Form is incomplete **Green ball with check mark - Form is complete** **Blank - Form available, but not necessarily required**

- Use Ctrl+E to move your cursor to the red field
- Make/correct entries for all required fields, or F3 to verify or confirm zero entry. Do not use F3 to solve problems
- Close the form
- Repeat until no forms (except renters credit) are flagged as incomplete (remember to scroll down to check the entire forms list) – only now are you ready to run diagnostics

RUN DIAGNOSTICS

TAXWISE ONLINE ONLY
• First, set the "Return Stage" to indicate the status of the return • "Return Stage is set by going to "Refund Monitor," Clicking "Check Return Status," and choosing the correct item under "Return Stage"

- Click on the "Run Diagnostics" using the menu bar button or Ctrl+D
- TaxWise does a complete review of the return and displays a list of possible inconsistencies, electronic filing errors and summary information for both the federal return and the state return
- If the warning "Return not registered" appears, the EFIN at the top of the 8879 and the EFIN registered under Setup Options do not agree – one or the other must be changed to bring them into agreement. See your Site Coordinator for assistance
- Any warning or error listed in the diagnostics screen should be carefully examined and corrections made as applicable
- Forms needing correction after the diagnostics check is completed – you can access the field on the form that is in error by double-clicking on the error message in the diagnostics screen. This does not work for state errors
- Note that "overrides" done within the context of TaxWise options (such as "changing the name & address" or "overriding amounts in boxes 3, 4 & 5" on the W-2) will appear in the diagnostics
- There will be red entries under "Estimated entries" because of the forms that are loaded on the Tree by default and not used. These entries are OK and do not need correction
- After all corrections have been made, click on the "RUN" box to re-run the diagnostics

- When no Diagnostic Errors are detected, TaxWise will tell you that the return is eligible for e-filing
- A return with no income cannot be e-filed. (e.g. social Security only), however if the taxpayer qualifies for a refundable tax credit (such as AOTC), enter $1 interest to allow e-filing
- ***TWD note:*** Set "Return Stage" if used for in-process tasks

CREATE E-FILES

Creation of the e-file assures that the DCN (Declaration Control Number)/Submission ID assigned to the return by TaxWise will print on the 8879's

- This should be done EVERY time you run diagnostics (or view a completed return), it updates the e-files each time
- Click on the "E-File" box on the diagnostics screen menu
- If there are "Validation errors" these must be corrected so that e-files may be created. Validation errors are usually caused by illegal Punctuation (&, /), extra spaces, or unused forms
- TaxWise will acknowledge that E-files were created successfully
- Close the diagnostics screen

If a return is opened for any reason after an e-file is created, TaxWise will not recognize the e-file(s) when the ERO tries to transmit. Therefore before exiting any re-opened return, you must re-run diagnostics and re-create the e-file(s)

TAXWISE ONLINE ONLY

- Return Stages
- Setting return stages is a very important, and often overlooked, step in the return process. Setting the correct Return Stage lets the ERO know the status of the return, consequently making his/her transmitting job easier and more accurate. The need to enter the Return Stage is described in other portions of this document at the point the Return Stage should be set
- The counselor should ALWAYS set the Return Stage when finishing the return and the Quality Reviewer should check that it was set as part of the review of the return
- Return stage entries are set by State, District, or Site, depending on state policies. Thus, any reference to Return Stage entries in this document may not agree with the ones at your site. It should be obvious which one to use – if not, check with your site manager
- Return Stages could be: E-file, federal and State; E-file, federal only; Paper, Finished; Paper, Unfinished, Amended, etc.
- The Return Stage can be set in two ways
  - Click on "Return Summary" on the Tool Bar
    - Under "E-file status" click the down-arrow next to "Return Stage" and set the appropriate value
  - With the return closed and viewing the "Active Returns" (or any other return View), set the Return Stage by clicking the down-arrow under the Stage column on the row with the taxpayers name

QUALITY REVIEW

- Every return prepared at a Tax-Aide site must be Quality Reviewed by another counselor
- The taxpayer(s) should be present to observe the quality review and answer any questions
- The reviewer must:
  - Examine the supporting documents supplied by the taxpayer and compare them with the entries on the 1040 and 540 to check for the accuracy and completeness of data entry
  - Complete the Quality Review sections of the Intake and Interview sheet (**given to Taxpayer)** during this process
  - Enter their initials in Preparer Use Form line 14
- A computer-generated return will not have the mathematical or copying errors that are potential problems for a hand-prepared paper return. But input errors can and do occur, and must be corrected before the taxpayer(s) leave the site
- Quality Review can be handled in several ways:

- If there are multiple W-2's or 1099-R's it is recommended that the W-2 or 1099-R worksheet be printed for quality review of these input documents
  - Printing any W-2 or 1099-R generates a one page summary of these documents
- Quality Review using the same computer on which the return was prepared OR
- Quality Review using a separate computer and a backup copy of the return or a networked computer

- The return is reviewed by looking at the 1040 screen and any other screens necessary
- All entries are reviewed on all forms used
- Quality Review using a printed copy of the return is not recommended
- When the Quality Review is finished, the Quality Reviewer should check that the Return Stage was properly set – if not set, or set to the wrong status, the Reviewer should set the correct status

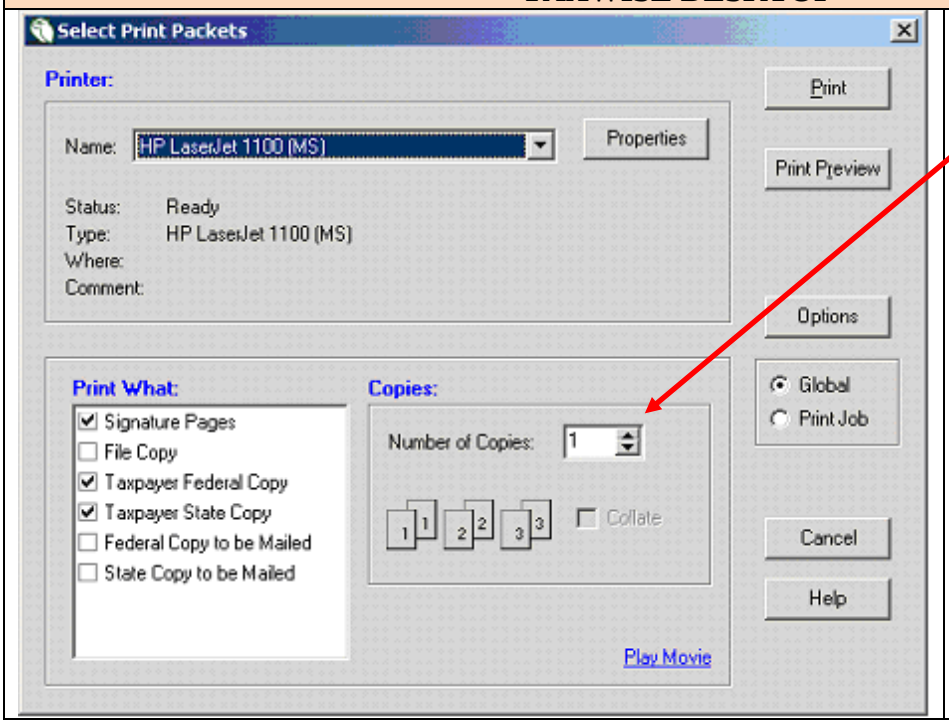
REVIEW RETURNS WITH TAXPAYER

- You can do this review either from the laptop screen OR by printing the returns, decide which works best for you and the taxpayer(s); for more complex returns (e.g. having many documents) it is often easier to work from a printed copy
- Bring the return up for review:
  - Select "Print Return"
  - ***TWD:*** also click either "Print Preview" (to review from the screen) or "Print"
  - ***TWO:*** also click to open PDF file in a new window
- Go over the entries on Form 1040 with the taxpayer
- Do the entries agree with the SS cards, W-2s, 1099-Rs, tax withheld, etc?
- Does the taxpayer understand the return?
- If prior year return is available, you may review differences with Taxpayer (Summary screen may also be used).
- Does any item seem strange (you don't understand where it came from)?
- Did the taxpayer get all the credits that you expected them to get?
- Review the entries on the CA 540 return with the taxpayer. Review form CA Sch CA.
  - Are all the CA differences you expected to see present?
  - Any surprises should be checked out
- When satisfied that the returns are in good order, continue

PRINTING RETURNS

TAXWISE DESKTOP
• Click on the "PRINT RETURN" button, printer icon, or press Ctrl+P • Check that the appropriate packets are selected (this assumes that the print packets are setup, if not, your TC/LC will have to provide printing instructions): o Signature Pages o File Copy – **OPTIONAL** if statements of W-2s and 1099-Rs are desired o Taxpayer federal Copy – for all returns, it includes two copies of 1040Xs if an amendment is being prepared o Taxpayer State Copy – for all returns, it includes two copies of 540Xs if an amendment is being prepared o Federal Copy to be Mailed – **ONLY FOR PAPER RETURNS** o State Copy to be Mailed – **ONLY FOR PAPER RETURNS** • Click Print Preview button o All the forms that normally print appear as in a separate window o This may be used whenever you want to see what will print and saves the paper that may be wasted

TAXWISE DESKTOP



Increasing "number of copies" increases the number of selected packets that will be printed

There is usually no need to change this number, as the defaults are set to cover most situations

TAXWISE ONLINE

- Click on the "PRINT RETURN" button on the Toolbar
- This assumes that the print packets are setup by your TC or LC. If not, your LC will have to provide printing instructions
- An Adobe .pdf file will be created and can be scrolled through to see what will print, then saved or printed

Printing Individual Forms

- Print Packets print only those forms that have been used on the tax return. Occasionally this can prevent a needed form from printing, as in the following situations:
  - Itemized deductions apply for state, but not for federal
  - TaxWise applies standard deduction to federal, and does not print Schedule A
  - Schedule A is needed for state return
  - Itemized interest and/or dividends on Schedule B are less than $1,500
  - TaxWise recognizes that Schedule B is not required, and does not print it
- You still may want to give the client a copy for his records
- Individual forms for the tax return can be printed separately
- If return is not already open, open it and go to desired form
  - Use the "Print Form" button on the menu
  - Enter number of copies to be printed and click "Print"
  - Printing any W-2 or 1099-R generates a one page summary of these documents, which is very useful during Quality Review when there are multiple documents
- ***TWD:*** if you right click on the W-2 or the W-2 in the forms tree, there is an option to print a W-2 facsimile
- Estimates are printed with the return, however they may be printed after the return is finished and printed

Printing blank forms

TaxWise allows you to print blank forms, which may be requested by a taxpayer who is coming to the site only for advice and/or assistance with a return he or she has manually prepared

TAXWISE DESKTOP	TAXWISE ONLINE
• Select "print blank form" from the File>Print menu • Select the form(s) from the lists (packages) of forms • Specify the number of copies to be printed • Hit print	• Go to the TWO Home page • Click "IRS Forms and Publications" • Look up the appropriate form • Print the requested number of copies

Suppressing Federal or California Return

- In some cases you will not be creating both federal and CA returns (e.g. they don't need or want to file a CA return, etc)
- To suppress the CA return, remove the "CA" in the State Information section of the MAIN INFO form
- To suppress the federal return (not recommended), change to a paper return and uncheck the Federal Print packets before printing.
- The ERO must be alerted that one of the returns is missing on purpose

Client Letter

Clients appreciate the information and professional "touch" in Client Letters. TCs / LCs / EROs are encouraged to use Client Letters with site or district contact information if possible

TAXWISE DESKTOP	TAXWISE ONLINE
TaxWise will automatically generate a **Client letter** for each return: • The top portion relates to the federal return, it will always print • The lower portion relates to the CA return, it will indicate that "No State tax return was prepared" if the State information on the MAIN INFO sheet is changed to indicate that a state return is not prepared A client letter prints with an amended return but the information is incorrect for the amended return. The letter should be removed and destroyed	TaxWise Online client letters are printed separately from the return by clicking on the "Client Letters" tab on the toolbar after you print the return: • Your ERO must create the Client Letters and give instructions on the use of them • Some sites may not use the Client Letter feature, but have an alternate method of printing Client Letters • You will be instructed on this at your site

SIGNATURES AND DISTRIBUTION OF COPIES

- The taxpayer's signature and spouse's signature are required on all tax returns – this is accomplished in different ways depending on how the return is filed
- If a return is MFJ and only one taxpayer is present, use the Practitioner PIN method and instruct them to return with the signed 8879 forms (Fed and CA) so the return can be filed electronically – make it clear that Tax-Aide is subsidized by the IRS to do e-filing and that the return will not be filed before we witness the signed form
- ***Note:*** A married taxpayer can sign for a spouse where injury or disease prevents signing, otherwise they must have a power of attorney (POA)

Electronic Returns – with Practitioner PIN (Electronic Signature)

- Both the federal and CA returns use electronic signatures
- The Self Select and Practitioner PIN section on the MAIN INFO form should be complete
- IRS Form 8879 and CA 8879 will be generated – **the taxpayer(s) must sign both**
- Place the signed IRS Form 8879 and the signed CA 8879 at the back of the client's printed papers
- Your ERO will advise what documentation is required to allow them to e-file a return. See Pub 3189 for options
- The ERO signature is entered automatically on the 8879
- If an 8453 is used, two copies of the 8453 and the attachment is required for the ERO

Electronic Returns – with Self-Select PIN (Electronic Signature)

This method is not used by Tax-Aide

Deceased person-signature requirements

- A surviving spouse will sign the return and add "as surviving spouse" after their name
- A personal representative or executor will sign their own name with their title - POA required

- A person other than Surviving spouse or personal representative will sign their own name - POA required
  - Form 1310 Refund due a deceased taxpayer will be required if the return is filed by other than a surviving spouse and there is a refund

Power of Attorney (POA)

- If an agent is signing the return for a taxpayer, a Power of Attorney (POA) must be filed
- When a POA is used to sign the taxpayer's return, the POA must be attached to Form 8453, Transmittal for IRS e-file, and sent to the appropriate IRS Processing Center in Austin, TX - your ERO should have prepaid mailing labels
- To load and print Form 8453 in TaxWise, the preparer **must add Form 2848**, Power of Attorney and Declaration of Representative, **and check the box which states "check here if using this form"**
  - This will automatically load Form 8453 and mark the box beside, "Form 2848, Power of Attorney and Declaration of Representative, (only for electronic return signed by an agent)"
  - Shred the Form 2848 when it prints with the return; instead, the POA provided by the taxpayer's agent will be attached to the Form 8453
- A Power of Attorney expires when a person dies

Attachments (8453)

- Some returns require attachments (listed in the "Self Select and Practitioner PIN" section of the MAIN INFO form and on Form 8453)
- Two copies of the 8453 and attachments shall be given to the ERO who sends one copy to the IRS processing center in Austin, TX and the other copy to the IRS SPEC

Attachments –PDF forms

- TW will allow attachment of pdf forms used to explain or provide additional information
- A return using such forms is ***out-of-scope*** for Tax-Aide

PAPER RETURNS

- When paper returns are required because the return cannot be e-filed, verify that the following has been done to prevent generating e-files:
  - "Paper" is checked under Type of Return on the MAIN INFO form, for the federal return
  - ***CA Note:*** "No" is checked in response to the question "do you want to electronically file this return" on page 3 of the CA 540

TAXWISE DESKTOP	TAXWISE ONLINE
• Change Return Stage to "Ready to file" by clicking on the Return Stage button and the "Ready to File" to inform ERO of status. Change Return Stage to "Paper" • Select the following print packets: • Taxpayer Federal Copy – if a federal return is being filed, for taxpayer's records • Taxpayer State Copy – if a state return is being filed, for taxpayer's records • Taxpayer Federal Copy to be Mailed – if a federal return is being filed, this copy is signed and mailed by the taxpayer(s) • Taxpayer State Copy to be Mailed – if a state return is being filed, this copy is signed and mailed by the taxpayer(s) Your LC may instruct you to use the "File Copy" instead of the taxpayer copies.	• Change Return Stage to "Paper" by clicking on the "Check Return Status" link in the "Refund Monitor" and then clicking on "Return Stage" under the "E-file Status" group. Then select the "Paper" line to inform ERO of status • Click the "Print Return" icon on the Toolbar ***Note:*** Return Stages are set by districts and the values they use may be different than the ones specified here. Check with your site manager if the Return Stage choice isn't obvious.

Collate the returns

- Federal – according to Attachment Sequence No. (at the top right of the form)
- CA – according to numerical / alpha sequence, followed by federal return if required

- The **taxpayer(s)** must sign the second page of the IRS 1040 AND the CA 540 returns being mailed

- Attach to the first page of 1040 and 540 returns:
  - W-2s (Fed / CA, respectively)
    - For CA return only, CA SchW2 may be used in place of W-2s, but don't attach both
  - W-2Gs, if tax was withheld (Fed / CA, respectively)
  - 1099-Rs, if tax was withheld (Fed / CA, respectively)
- Instruct the client to mail the returns together with any payment vouchers and checks
- Mailing addresses are shown above at the beginning of this manual
- Returns filed on paper should be recorded on the ERO log and saved at the end of the shift, as the taxpayer(s) may return to request an amendment or return for service next year

EXITING A RETURN BEFORE COMPLETION

- Should you need to exit a return before completion of the return:
  - Before closing, change the "return stage" to indicate the reason why the return is not complete (optional by district)
  - If e-files have been created, delete the e-file.

TAXWISE DESKTOP	TAXWISE ONLINE
• Close the return • On the opening TaxWise screen select Tools>Utilities/Set-Up Options>File>erase E-files • Select wide format • Select e-file to be deleted and click OK	• Make a change to the return, e.g., add a letter to the last name • Close the return • Open the return and remove the letter you added • Close the return

- The return status will show "In Progress" on the list of existing returns
- Enter an explanation of what is required to finish the return either in the Query Status (F7) Diary or at the bottom of the MAIN INFO form
- Be sure to accurately explain the status of this return on your ERO log

Editing A Previously Created Unfinished Return

TAXWISE DESKTOP	TAXWISE ONLINE
• If return was started on a previous day, restore return to computer. (See Shutdown Procedures for instructions) • On the TaxWise home page, click on "Open an Existing Return" • Click on the SSN of the file you need. • TaxWise will load the return. • You may now move around in the return, making changes as needed	• On the TaxWise Online Toolbar, click on "Open Return" • Enter the SSN of the file you need • TaxWise will load the return • You may now move around in the return, making changes as needed • Reset the "Return Stage" to indicate the new status

Always run diagnostics and create new e-file(s) after making any changes, or even reviewing a return

UNABLE TO PAY/LATE FILING

- Returns prepared by Tax-Aide will always be filed by April 15, except for authorized sites open year-round
- Prepare proper vouchers for payment and instruct the taxpayer to pay what they can on each and send it in by the due date
- The IRS and FTB will contact them with the options for paying the balance
- Refer to IRS Pub 594 – The IRS Collection Process

Pay Late

- If payment can be made in several months, pay as much as possible by April 15
- The Taxpayer will receive a notice of Tax due about May 15, a tracer around June 15 and again around July 15, followed by a Notice of the Account being placed in Collection Status

- The taxpayer will owe Interest at the federal rate plus a late penalty of 0.5% per month after the due date
- The Taxpayer may call the IRS at the number shown on the Notice of Tax Due and may request a "Full Pay within 60 or 120 day Agreement"
- This will stop the tracers and the placement of the account in Collection Status

Pay by Credit/Debit card

The volunteer Reference Guide-Pub 4012 Section 13-7 and IRS.gov have the names and phone numbers of the companies that handle payment of taxes by credit/debit card

Pay by Installment Agreement

- Should be considered only if Taxpayer cannot pay their balance due within 4 months
  - If the balance due can be paid within 4 months, do not request installment payments. Just print out enough voucher forms as the Taxpayer may need
  - Be sure to advise of the penalties and interest that will be due on unpaid amounts
- **Form 9465**, Installment Agreement Request, (which is included in the TaxWise forms) must be completed
  - The return can be e-filed with this form
  - There is a one-time set-up fee of $105, which can be reduced to $52 by agreeing to pay by direct debit or reduced to $43 by filing form 13844 (not available on TW) for low-income households
  - They will owe interest and a late-payment penalty of 0.25% of the balance due each month
  - The taxpayer can choose the monthly due date and payment amount, and may arrange to have the funds withdrawn directly from a bank account.
- For taxpayers owing less than $50,000 and agreeing to pay it off within 5 years, the IRS has a streamlined approval process – the taxpayer can check the IRS web site to see if they qualify
- While on an installment agreement, the taxpayer must file and pay future taxes on time
- ***CA Note:*** CA Form 3567 is used to request installment payments
  - A $34 filing fee applies

Hardship extension of time to pay

- ***Note:*** Form 1127 may be used request an extension of time to pay due to undue hardship (not available on TW)

Late Filing

- If no tax was due or the taxpayer is due a refund, there is no penalty as long as the return is filed within three years of the due date
- Penalties if tax is owed:
  - The interest on the amount past due varies quarterly and as of Q3 2012 is 3% per year for each federal and CA, compounded daily
  - The late filing penalty is 5% per month of the unpaid tax up to a maximum penalty of 25% of the amount due for each federal and CA
    - If the return is filed more than 60 days late, the minimum penalty is $100 or the full amount of the tax due, whichever is less

Refunds

- The **deadline for claiming refunds**:
- For federal – three years from the date the return was due (e.g. the last day for claiming a refund on a 2009 return will be April 15, 2013)
- For CA – four years from the due date of the return (e.g. the last day for claiming a refund on a 2009 return will be April 15, 2014)

Prolonged Failure to File

- Unlike the three-year deadline for refunds, there is no limit on how far back the IRS can go in assessing taxes for non-filed returns
- Repeated failures to file might even result in criminal charges, which carry a maximum fine of $25,000 and one year in prison for each count if convicted

END-OF-SHIFT

Assemble the ERO Envelope

TAXWISE DESKTOP
This is a critical task, these are required by the ERO to e-file the returns at the end of each session: • A backup of all (e-file, paper and those pending additional information from the taxpayer) returns on either flash drive or disk. We retain all returns, including those paper filed, in case an amendment is requested later and/or for use with next year's "proforma" • For each e-filed return: o Your ERO will advise what information is required to allow him to e-file a return o Form 8453 and attachment if required, in duplicate • Your completed ERO Log • Consult your Site Coordinator regarding procedures for the second backup

TAXWISE ONLINE
Your completed ERO Log Form 8453 and attachments, if applicable, in duplicate

Tax Aide Site Sign-in Sheet

Check that everyone you have seen is properly recorded (cross check with computer and with ERO info). Turn in the information to your site coordinator.

Computer Shutdown Procedure

See TaxWise Procedures

- ***TWD:*** Shutdown Procedures
- ***TWO:*** Shutdown Procedures

OTHER RETURNS

PRIOR YEAR RETURNS

Certified Counselors for the prior year to be prepared or for at least two years may prepare prior year returns

TAXWISE DESKTOP
• When doing multiple past year returns for a taxpayer, start with the oldest and work forward, using "carry forward" (tools>carry forward>prior year data, then follow the prompts to find the return) to speed the process • 2010 and later returns can be e-filed if they are limited to the forms allowed for MeF (check with ERO) • Years prior to 2010 CANNOT be e-filed • Check if the prior year TaxWise software is installed and operational • Double click on the icon and select "Start New Return" • Enter information in the same manner as current year. Note that many non-dollar fields are not required as the return will not be e-filed, for instance you only need dollar amounts on the W-2s • After completing a prior year return, remember to close the prior year TaxWise program completely and open the next current year TaxWise before continuing with other new returns • At the end of the shift, open the prior year TaxWise program and delete the return

TAXWISE ONLINE
• Prior year returns CANNOT be e-filed, so "Paper" return should be selected in both federal and State – your ERO should have defaulted this fields, but you should check • The prior year TWO is accessed by appending the two-digit year to the TWO URL, e.g. for 2008, the TWO URL is: twonline.taxwise.com/08

TAXWISE ONLINE
• Click "New Return" on the Toolbar • Enter information in the same manner as current year. Note that many non-dollar fields are not required as the return will not be e-filed, for instance you only need dollar amounts on the W-2s • After completing a prior year return, remember to log out of the prior year TaxWise Online site and open the current year TWO site before continuing with other new returns

- IRS offices will also assist taxpayers with preparation of prior year returns
- Forms and instructions for prior years can be downloaded from the IRS web site

AMENDED RETURNS

Certified Counselors for the prior year to be prepared or for at least two years may prepare prior year returns

- Amended returns CANNOT be e-filed
- When amending a federal return, check to see if the CA return also needs to be amended
  - Both can be easily done at the same time on the computer
  - An adjustment letter (CP2000) is not a reason to amend a return
  - However if the federal adjustment proposed is correct and is accepted, a CA amended return may be necessary to agree with the adjusted 1040
- There will be instances when the federal return rejects and the necessary correction(s) change the state return amounts
  - If the state return has already been accepted, the ERO will have to generate a state amendment and mail it to the taxpayer(s) for signature and submission
- If amending a prior year return, confirm you are working in the software for the applicable year
- If you do not already have a copy of the taxpayer's original return on your computer, it will be necessary to create a tax return
  - Enter information from the original return on appropriate supporting form screens using information from the original return
  - However, since the amended return cannot be e-filed, employer or payer names usually do not need to be entered
  - Do not enter the original return numbers directly on the 1040 or 1040X screen, as some items (such as taxable social security, or allowable medical deductions) may change with the adjustment in income
- ***TWO note:*** You have access to prior year returns only if you did the return in TWO for that year. You can create a new return though
- If you do have a copy of the original return, open that return
- Make sure the federal and CA returns agree with the originals
- If amending a current year return, make a note at the bottom of the MAIN INFO sheet that an amendment was filed
  - Change the type of filing from e-file to Paper on both the federal and CA
  - Change the "Return Stage" to "Ready to file"
  - Local instructions may require you to further change the "Return Stage" to indicate that it is a Paper or Amended return

Before Making Changes

- Reconfirm that all data conforms to the originally filed federal and California returns
- "Freeze" the as-originally-filed data:
  - Federal return:
    - Go to Form 1040-X
    - Check the box on the first line of the 1040X to "Override the original entries in column A…" before making any changes to any forms
    - For 2008 and earlier, the box is in the section with the income numbers
  - California return
    - Go to Form CA 540-X

- Check the red box above Line 1a State wages to "Override all original entries in Column A…" before making any changes to any forms

Make Required Changes

- Go through each form that requires revision, and make the necessary changes
  - This updates both the federal and CA returns
- DO NOT make changes directly on the 1040X or 540X
  - In some cases it may be necessary to manually make adjustments to state income or deductions on TaxWise form CA Sch CA
- Once all changes are completed and both revised returns are correct:
  - Open Form 1040-X, and complete any remaining red fields on Pages 1 and 2
  - Open Form 540-X, and complete any remaining red fields on Pages 1 and 2
- Explain each change separately and in detail
  - Item being changed
  - Amount previously reported and corrected amount
  - Reason change was needed, note any documents that are attached supporting the change

Print the amended return(s)

- In addition to Forms 1040-X and 540-X, any form or schedule that has been changed from the return as originally filed should be attached to the amendment
  - E.g. if the return is amended to add a 1099 for interest income:
    - Federal: 1040-X, 1040 (as amended), Sch B (if required) and any other form that changed (e.g. Sch A if medical deductions changed)
    - CA: 540-X, 540 (as amended), copies of federal pages that changed

TAXWISE DESKTOP
• Follow your LC's direction on which packet(s) to print • You need two copies of each return: one to file and one for the client to keep • Attach all supporting forms and schedules for items changed (make sure all info on the revised schedule including payer names is shown)

TAXWISE ONLINE
• Click the "Print Return" icon on the Toolbar • If your ERO set up the program properly, two copies of the 1040-X and 540-X will print • If not, then you will have to manually print the second copies of these forms • Attach all supporting forms and schedules for items changed (make sure all info on the revised schedule including payer names is shown)

- **Federal:** The taxpayer(s) must sign and mail one copy of the 1040-X with all revised supporting forms and schedules
  - Attach any corrected W-2s and 1099s, if there is withholding
- **CA:** The taxpayer(s) must sign and mail one copy of the 540-X with the revised CA forms or schedules, any changed federal schedules, and documents supporting each change such as corrected W-2s, 1099s
- ***Note:*** If the amendment is the result of a letter or notice from the IRS or FTB, send the amendment with a copy of the letter attached to the address shown on the letter
- For all other amended returns, see table above for addresses
- The client should be given an exact duplicate set of returns for their records

REQUEST FOR EXTENSION OF TIME TO FILE

- An automatic six-month extension of time to file is available for most taxpayers by submitting form 4868, which can be done as follows:
  - Filing form 4868 by phone between February 1 and April 15 if a payment is due
  - e-filing form 4868 (if approved by ERO)
  - Mailing a paper form 4868 with a check for any tax due

- **CA** grants an automatic extension of time to file as long as the tax is paid in full by the due date
  - No form is needed if no payment is required
  - CA Form 3519 is the payment voucher for an automatic extension
- The key point that the taxpayer(s) must understand is that any tax liability (albeit estimated) must be paid to both the IRS and CA by April 15, otherwise interest and/or a penalty will accrue
- Complete the Main Info sheet and in the "Self Select and Practitioner PINs" section select the 4868 with or without direct debit, as appropriate
  - Form 4868 is added to the tree
  - Go to Form 4868 and click the box at the top of the form
  - Enter all documents that were received and enter estimates for missing income deductions
  - Extensions can be e-filed or you can Print the Form 4868 and have client mail the form with a check for amount due
    - ***Note:*** E-filing must be coordinated with and approved by your ERO
  - At some later date the taxpayer(s) will need to submit a final return – which will almost always be after April 15 when Tax-Aide services are no longer available, except for limited sites
- If there is a payment due for CA:
  - Go to Form CA 3519
  - Check the box at the top of the form
- Inform the client that the returns must be complete and filed by October 15
- Be careful if you print copies of the return as it is not complete, has not been filed, and may lead the taxpayer to believe that a return was filed by Tax-Aide
  - To remove doubt, it is suggested that you use a watermark or manually write on the return that it is a draft and has not been filed

REPORTING & SITE LOGS

- AARP Foundation must track counseling activity at each site, as this is the basis for the IRS grant
- In addition, the site ERO needs to track e-file activity
- Sites use various "logs", which may include:
  - Site Sign-in: to keep track of taxpayers in order to determine the sequence of service
  - Tax Aide Site Sign-in Sheet: to track counseling services provided, which is summarized by the Local Coordinator and reported periodically to the District Coordinator
  - ERO Log: information about returns to be e-filed, which is used by the site's ERO to control the e-file processing
- Sites can develop their own formats as long as they collect the following required elements of client activity:
  - Paper filed current year returns
  - Prior Year Federal Returns prepared
  - Amended Federal Returns prepared
  - State Only Returns prepared
  - Count of "Q&A" services (when no return was prepared)
- The site Local Coordinator keeps the above statistics and provides them to the District Coordinator at specific intervals.

INDIVIDUAL TAXPAYER IDENTIFICATION NUMBER (ITIN)

- Federal law requires individuals with U.S. income, regardless of immigration status, to pay applicable U.S. taxes
- The ITIN is a nine-digit number (that begins with the number 9 and has a 7 or 8 as the fourth digit) that was created for use on tax returns by those taxpayers who do not currently qualify for (or have) a Social Security Number

- An ITIN will be issued to individuals who have a valid filing requirement ONLY, regardless of immigration status
- The ITIN does NOT:
  - Authorize work in the US
  - Provide eligibility for Social Security benefits OR the Earned Income Tax Credit
  - Provide valid identification outside the tax system
  - Establish immigration status
- Refer to IRS Publications 17 and 1915

Taxpayer does NOT have valid SSN or ITIN

TAXWISE DESKTOP	TAXWISE ONLINE
• Start the return from the file menu • Select "Apply for ITIN" o A dummy SSN (e.g. ITI-N0-0001) will be assigned but will not print on the return	• Click "New Return" • Mark "Apply for ITIN"

- Prepare the tax return
- Return cannot be e-filed
- Taxpayer will complete W-7
- Taxpayer will submit the paper return together with the W-7 and required documentation to the following address: (and not to any other IRS office):
  IRS, ITIN Operations
  PO Box 149342
  Austin, TX 78714-9342
- Taxpayer may submit the W-7 and required documentation to an IRS Acceptance Agent authorized to review the information
  - Local Acceptance Agents can be located on www.irs.gov under Acceptance Agent Program
- State return should be paper filed with "Applied For" written in the SSN field
  - Taxpayer should contact the FTB once the ITIN is received (1-800-852-5711)

Taxpayer has valid ITIN (from prior years)

- Client should bring their IRS letter that assigned their ITIN
- Check documents to make sure name is correct (SSN will be incorrect)
- Create the return using the ITIN as appropriate for the primary or secondary SSN
- For W-2 forms with the incorrect SSN, enter the incorrect SSN that appears on the paper W-2 issued by the employer
- E-file the return
- If documents have an incorrect name, submit as paper return

Taxpayer now has a valid SSN (previously filed using an ITIN)

- Prepare return
- E-file using the SSN
- Amend the prior year(s) returns
  - Taxpayer subsequently obtains valid SSN after submitting one or more federal returns using an ITIN
  - Prior year ITIN return could not claim EIC, but may claim on an amended return
  - Reason should state "Previous return filed with ITIN _____" as well as the addition of EIC, or other change

Form W-7 (out-of-scope)

- Application for an ITIN
- For specific instructions, the applicant(s) should consult the instructions accompanying the W-7
- ***TWD:*** A blank W-7 can be printed from TaxWise – go to the form and use the Print Form button
- ***TWO:*** A blank W-7 can be printed - go to main menu, IRS Forms and Pubs
- The application can be made by mail or at any IRS Assistance Center or Acceptance Agent
- It generally takes 4 to 6 weeks to receive the ITIN

- In most cases **the applicant must provide the original, completed tax return(s) for which the ITIN is being requested as well as two of the following with the W-7**:

Valid Passport (No other Document required	U.S. Military Identification Card
National Identification Card	Foreign Military Identification Card
U.S. Drivers License	Visa
Civil Birth Certificate	U.S. Citizenship and Immigration (USCIS) photo ID
Foreign Drivers License	Medical Records (dependent only)
U.S. State Identification Card	School Records (dependents and students only)
Foreign Voters Registration Card	

TROUBLESHOOTING AND TIPS

If TAXWISE DESKTOP "Hangs Up"

- This happens often when a subsidiary form is added by linking, such as a scratch pad to detail medical insurances, and then deleted
- The point of linkage is locked and cannot be typed into
- Close the return and re-open it

If TAXWISE ONLINE "Hangs Up"

- Usually, TWO will switch forms and update fields fairly rapidly, though never as fast as TaxWise Desktop
- Sometimes, a "Loading form" will be displayed for an extended time – that is commonly referred to as "TWO Hangs Up"
- If this condition lasts for more than 15 seconds, following are some procedures to use to recover, in the order they should be used:
  - Press the F5 key to reload the form
  - Press the "Back" arrow in Internet Explorer
  - Close the return and re-open it
  - Log out of TWO and log back in
  - Close Internet Explorer and re-start it
  - Close TWO and re-boot the computer

Printing in TWD

- "Print Form" can:
  - Print the form, or the screen image (the TW form)
  - There's an option to also print related worksheets, scratch pads, etc.
  - There's a print preview option
  - There's a print screen image option that prints the TW form/worksheet

Printing in TWO

- A multi-step procedure
  - First a PDF file is created
  - Then you must click a link to display it in Adobe Acrobat Reader, and
  - Finally, you click the print button to send the output to the printer

  Note: The generation of the PDF file can be beneficial in certain circumstances
- Printing a form(s) –click the "Print Form" icon above the Forms Tree
- Print one form at a time
- This can be tedious in the case where, for example, you have printed the return and then remembered to add the quarterly estimated tax vouchers. Rather than print the four vouchers one-by-one, you can create the PDF file by clicking Print. Then, find the page numbers of the vouchers and print only those pages, rather than the whole return. This is much faster than printing each form separately

Saving

- TWO and TWD automatically update and save the data when you switch forms
  - While you are in a form, the data entered is not saved until you exit the form or return
  - If you are spending a long time in a form, e.g., the capital gains worksheet with many entries, it is good practice to frequently click the "Save" icon on the toolbar
  - That way, if the program should "freeze," your entries to that point will be saved
- Any time the program freezes, you should go back over your last few entries to make sure that the data was saved

Deleting E-Files in TWO
• If you mistakenly create e-files, e.g., for a paper return, etc, you should delete the e-file so the ERO won't have an e-file loaded for which he/she has no paperwork to accompany the return • To delete the e-file: o Make a temporary change to the return, e.g., add an "a" to the taxpayer's first name o Then close the return – this will erase the e-file o Then, go back into the return and remove the "a" from the first name o Close the return – all e-files will be removed • In all cases, confirm with your ERO / LC BEFORE deleting any files

Restoring Deleted Returns

- Multiple returns can be restored using the "Restore Returns" feature
- This can only be done by the Admin user or a user assigned the Admin role

GLOSSARY

ACK File	Acknowledgment file showing accepted, duplicated or rejected returns.
AGI	Adjusted Gross Income.
AMT	Alternative Minimum Tax
AOTC	American Opportunity Tax Credit, formerly HOPE Education Credit
CASDI	The amount deducted from wage income to fund the California State Disability Income program, some payments will be made to VPDI instead of CASDI
CCH	Consumers Clearing House- publisher of TaxWise
COD	Cancelation of Debt
DC	District Coordinator (The individual responsible for all sites in a district)
DCN	Declaration Control Number (Number assigned to an electronic tax return when it is batched for transmission to the Service Bureau or the IRS. Prints at the top of the 8879. Includes the EFIN in conjunction with identification).
DCR	Declaration Control Report (Report compiled before each transmission of returns.)
EFIN	Electronic Filing Identification Number (A unique number assigned by the IRS to identify each electronic filing site, which is used as the electronic "address" for the site)
EIN	Employer (Tax) Identification Number (The federal ID number for processing employer payroll information.)
ERO	Electronic Return Originator (Counselor who performs the tasks related to electronic filing of returns.)
HRA	Homeowners & Renters Assistance, a State of California program. See section 18.
HSA	Health Savings Account
ITIN	Individual Taxpayer Identification Number. See section 22.
LC	Local Coordinator (The individual responsible for one or more tax preparation sites)
MeF	Modernized Electronic filing
OPM	Office of Personnel Management (the federal agency which pays government pensions)
PAB	Private Activity Bond
POA	Power of Attorney
RTN	Routing Transit Number. (Nine-digit number assigned by the Federal Reserve to uniquely identify a bank)
SC	State Coordinator (The individual responsible for all districts in the sub state.
SDI	The same as CASDI, see above
SIDN	Site Identification Number (A unique seven digit number starting with "S" assigned to each physical counseling site operated by Tax-Aide)
Site	A physical Tax-Aide service provider location
SPEC	The IRS Stakeholder Partnerships Education and Communication office
SSN	Social Security Number (Number issued by the Social Security Administration for each individual participating in the Social Security Program.)
TC	District Technology Coordinator
TCS	State Technology Coordinator
UD	Unemployment Disability insurance-deductible as a state tax
UI	Unemployment Insurance-deductible as a state tax
UTS	Universal Tax Systems (The branch of CCH that produces the TaxWise software.)
VI	Voluntary insurance-NOT deductible as a state tax
VP	Voluntary Payment-NOT deductible as a state tax
VPDI	Voluntary Payment Disability Insurance-NOT deductible as a state tax

SALES TAX TABLES

2011

CA 2011 Sales Tax Table from Schedule A instructions (the appropriate amount based on income and number of exemptions goes on line 1 of the Sch A Sales Tax Worksheet)

Avg 7.7459%

Income		Number of exemptions					
At least	**But less than**	**1**	**2**	**3**	**4**	**5**	**Over 5**
$0	$20,000	289	316	333	346	356	370
20,000	30,000	479	522	550	571	588	612
30,000	40,000	577	629	633	688	709	737
40,000	50,000	662	722	761	790	813	945
50,000	60,000	738	806	849	881	907	942
60,000	70,000	809	882	929	964	993	1032
70,000	80,000	875	955	1005	1043	1074	1116
80,000	90,000	937	1022	1076	1117	1150	1195
90,000	100,000	996	1086	1144	1187	1222	1269
100,000	120,000	1073	1170	1233	1279	1317	1368
120,000	140,000	1180	1287	1355	1406	1447	1504
140,000	160,000	1274	1389	1462	1517	1562	1622
160,000	180,000	1367	1490	1569	1628	1676	1741
180,000	200,000	1452	1582	1666	1729	1779	1848
200,000	No Limit	1875	2044	2151	2232	2297	2386

2011

This table is Only for 2011 tax returns

2010

CA 2010 Sales Tax Table from Schedule A instructions (the appropriate amount based on income and number of exemptions goes on line 1 of the Sch A Sales Tax Worksheet)

8.25%/7.25%- avg7.75%

Income		Number of exemptions				
At least	**But less than**	**1**	**2**	**3**	**4**	**5**
$0	$20,000	326	379	414	441	464
20,000	30,000	523	605	660	702	737
30,000	40,000	624	721	785	835	876
40,000	50,000	710	820	892	949	995
50,000	60,000	788	908	989	1051	1102
60,000	70,000	859	989	1076	1144	1199
70,000	80,000	926	1066	1159	1231	1291
80,000	90,000	988	1136	1236	1312	1376
90,000	100,000	1047	1204	1308	1389	1456
100,000	120,000	1125	1292	1404	1490	1562
120,000	140,000	1231	1413	1535	1629	1706
140,000	160,000	1324	1519	1649	1750	1833
160,000	180,000	1417	1625	1763	1870	1959
180,000	200,000	1501	1720	1866	1979	2072
200,000	No Limit	1921	219	2378	2520	2637

2010

This table is Only for 2010 tax returns

2009

CA 2009 Sales Tax Table from Schedule A instructions (the appropriate amount based on income and number of exemptions goes on line 1 of the Sch A Sales Tax Worksheet)

8.0034%(use 8.25% for calculating local sales tax

Income		Number of exemptions				
At least	**But less than**	**1**	**2**	**3**	**4**	**5**
$0	$20,000	285	309	323	334	343
20,000	30,000	482	519	542	559	573
30,000	40,000	589	633	660	681	697
40,000	50,000	686	736	767	790	808
50,000	60,000	776	831	865	891	911
60,000	70,000	862	921	958	986	1008
70,000	80,000	945	1009	1049	1078	1102
80,000	90,000	1025	1092	1135	1166	1191
90,000	100,000	1102	1174	1218	1251	1278
100,000	120,000	1208	1284	1332	1367	1395
120,000	140,000	1358	1441	1493	1531	1562
140,000	160,000	1496	1584	1639	1680	1713
160,000	180,000	1638	1731	1790	1834	1869
180,000	200,000	1771	1869	1931	1977	2014
200,000	No Limit	2504	2624	2701	2757	2803

2009

This table is Only for 2009 tax returns.

California Pub 540 for 2009 has local and county taxes

2008

CA 2008 Sales Tax Table from Schedule A instructions (the appropriate amount based on income and number of exemptions goes on line 1 of the Sch A Sales Tax Worksheet)

7.2500%

Income		Number of exemptions				
At least	**But less than**	**1**	**2**	**3**	**4**	**5**
$0	$20,000	246	280	303	320	334
20,000	30,000	423	480	518	547	571
30,000	40,000	518	587	633	668	696
40,000	50,000	601	681	734	774	806
50,000	60,000	678	767	825	870	907
60,000	70,000	748	846	910	960	1000
70,000	80,000	815	922	991	1045	1088
80,000	90,000	879	992	1067	1124	1171
90,000	100,000	939	1060	1140	1201	1251
100,000	120,000	1019	1150	1236	1302	1356
120,000	140,000	1131	1275	1370	1443	1502
140,000	160,000	1230	1386	1488	1567	1631
160,000	180,000	1330	1497	1608	1692	1761
180,000	200,000	1420	1599	1716	1805	1879
200,000	No Limit	1885	2117	2269	2385	2481

2008

This table is Only for 2008 tax returns.

California Pub 540 for 2008 has local and county taxes

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